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ABSTRACT

The Minnesota school finance system is the method by which funds are provided for the operation of public elementary and secondary schools and public postsecondary vocational-technical institutes. This document comprises a reference guide for state legislators to the Minnesota school finance system. It begins with historical and legal background information on school finance in Minnesota, along with a brief survey of school finance litigation and a description of the Minnesota public school system. Subsequent chapters cover: (1) basic shool finance terms and concepts; (2) the foundation aid program; (3) additional features of the foundation aid program; (4) funding for school transportation; (5) funding of special education and education for limited English proficient pupils; (6) funding of community, adult, and early childhood education; (7) vocational-technical education; (8) miscellaneous state funds for education; (9) tax relief aids and aids in lieu of taxes; (10) nonmaintenance school district levies; (11) capital finance; (12) school district accounting; (13) teacher retirement; and (14) teacher mobility incentives. (TE)

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MINNESOTA SCHOOL FINANCE
A Guide for Legislators

July 1986

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July 1986

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Background

INTRODUCTION

The Minnesota school finance system is the method by which funds are provided for the operation of public elementary and secondary schools and public post-secondary vocational-technical institutes. Historical, legal, and descriptive information provides the context for understanding the school finance system.

HISTORICAL AND LEGAL INFORMATION

Public education in the United States is the legal responsibility of state government. In Minnesota, as in most states, the state constitution charges the Legislature with responsibility for public schools:

> *The stability of a republican form of government depending mainly upon the intelligence of the people, it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.*
>
> *(Minnesota Constitution, Article XIII, Section 1.)*

Minnesota delegates responsibility for the actual operation of schools to local school districts whose powers and duties are prescribed by state statute. Historically, the property taxes levied by the school boards governing these school districts have been the primary source of revenue for running schools. Some time after 1900, property taxes were supplemented by limited amounts of state appropriations for aid to school districts. By 1970-71, the Minnesota state foundation aid program provided all districts a flat grant per pupil unit (a pupil unit is a weighted enrollment measure), and provided some districts an additional "equalized" amount which varied inversely with a district's property valuation. Under this system, state aid funded about 43 percent of the cost of running schools, and school expenditures per pupil varied widely from district to district. Local property taxes rose rapidly in all districts in the late 1960's, and the tax rate for schools also varied widely among districts.

The 1971 Legislature addressed these disparities by substantially increasing the amount of equalized state foundation aid per pupil unit and imposing a uniform, statewide limit on the property tax rate for schools. The 1973 Legislature eliminated flat grants and established a system whereby the amount of foundation aid program revenue available per pupil unit to low spending districts would be increased to the state average over a six-year period. From 1973 to 1983, the Legislature adjusted the foundation aid formula several times making it more responsive to differences among districts and altering the relationship between local tax effort and state aid, without changing the formula's basic structure.

The 1983 Legislature enacted a new foundation aid program which became effective in the 1984-1985 school year. The new program replaces several components of the existing foundation aid formula (i.e., discretionary, replacement, grandfather and low fund balance aids and levies) with five tiers of optional aid and levy. The main characteristics of the new five tier program are: equal access to revenues; recognition of some specific cost differences; and more discretion on the part of school boards in choosing the necessary level of revenue.

SCHOOL FINANCE LITIGATION

During the 1970's and early 1980's, 29 states in addition to Minnesota adopted legislation to reform the school finance system by enacting or improving equalization formulas, which provide more state aid to districts with low property wealth. In many states, including Minnesota, court challenges to the constitutionality of traditional school finance systems added to the pressure for reform.

The earliest challenges under the equal protection clause of the Fourteenth Amendment to the United States Constitution ("...nor shall any state...deny to any person within its jurisdiction the equal protection of the laws") were unsuccessful. They claimed that the only permissible variations among public school expenditures should be based on "educational needs." This standard was found to be too political and unclear for a court to apply.

The second round of challenges under the Fourteenth Amendment proposed the standard of "fiscal neutrality": the quality of a child's education, measured by the amount expended for that education, cannot be permitted to vary according to the property wealth of his or her parents and their neighbors; and the taxpayers in a property-poor district cannot be required to pay a higher tax rate than taxpayers in a property-rich district to attain the same quality of education for their children. This standard was first endorsed by the California Supreme Court under the federal and state equal protection clauses in its 1971 decision refusing to dismiss the complaint in the case of Serrano v. Priest. In short order a number of other courts also adopted the standard of fiscal neutrality, including the Minnesota federal district court in its October 1971 decision upholding the validity of the claim in the case of Van Dusartz v. Hatfield. This round of litigation came to an abrupt halt in March 1973, when the United States Supreme Court reversed a lower court's fiscal neutrality decision under the Fourteenth Amendment in the case of San Antonio Independent School District v. Rodriguez.

The third round of school finance litigation is occurring under the equal protection and education provisions of state constitutions. The Serrano case in California went to trial in 1974, and both the trial court and the state supreme court (in 1977) found that the school finance system violated the state equal protection clause under the principles of fiscal neutrality. Legal theories for suits under state constitutions' education clauses also include the arguments that school finance systems must provide for minimum levels of pupil achievement (e.g., New Jersey), must ensure that districts have the minimum resources necessary to supply a basic educatio (e.g., Washington, Ohio, West Virginia), must respond to differences among di icts' tax burdens, costs and needs (e.g.,

New York, Wisconsin), or cannot predominantly base the availability of funds on voters' willingness to approve taxes (e.g., Ohio, Pennsylvania).

Challenges to school finance systems based on state constitutions are pending in California (Serrano case reopened in 1979), Florida, Kansas, Maryland (challenge successful in trial court; appeal pending), Massachusetts, Michigan (challenge unsuccessful in trial court), South Dakota, and Wisconsin. School finance systems have been struck down by state supreme courts under the state constitutions in Arkansas, Connecticut, New Jersey (new finance system is currently being challenged), West Virginia (trial court's ruling was not appealed), and Wyoming, and upheld in Arizona, Colorado, Georgia, Idaho, Illinois, New York, Ohio, Oregon, and Pennsylvania. The Washington supreme court held that the state's school finance system is unconstitutional as applied to Seattle because it fails to define basic education and to provide sufficient state funding and thus does not meet the state's constitutional duty to "make ample provision for the education of all children residing within its borders."

There has been a noticeable decline in school finance litigation during the last few years. Many states have modified their finance systems in response to the "equity reform agenda" of the 1970's. The current reform efforts of the 1980's which focus on improving the quality of schools have caused some concern for critics, who caution that the current education reform efforts should not result in dismantling the progress of the equity reforms made during the last decade.

MINNESOTA DESCRIPTIVE INFORMATION

Public elementary and secondary education is provided via a financial partnership between the state and 435 local school districts. These districts exhibit diversity in terms of enrollment, local property wealth, and expenditure levels, as shown by Table 1 (page 4). In 1984-85, a full-time equivalent professional staff of 44,744 served approximately 695,823 students. In 1984-85 there were also an estimated 93,095 pupils enrolled in nonpublic schools.

Enrollments in Minnesota public schools have been declining steadily in recent years, but are expected to stabilize by the mid-1980's with modest growth in enrollments anticipated in the early 1990's. Table 2 on page 5 gives state total enrollment history and projections for the period from 1972-73 to 1994-95.

The state and federal governments share in financial partnership with local districts for purposes of funding elementary and secondary education. For the 1984-85 school year, the state provided approximately 49 percent of the operating costs of elementary and secondary education (see Figure 1, page 6), This is approximately the same proportion of operating costs provided by the state in the 1983-84 school year. Local revenue sources provided approximately 47 percent of 1984-85 operating revenues, and the federal government provided approximately 4 percent.

The bulk of state support for elementary and secondary education is distributed to the districts through the foundation aid program, which provides money for the current operating expenditures of the districts, based upon a district's ability to pay as measured by adjusted assessed valuation ("EARC"). The remaining portion of the state's appropriation to local districts is provided

through special purpose or categorical aids, such as special education and secondary vocational aids; local property tax relief aids, including the agricultural tax credit and homestead credit; and state aid for teacher retirement and social security costs. The state programs providing financial aid to Minnesota school districts are described in the following pages.

Table 1

CHARACTERISTICS OF MINNESOTA INDEPENDENT SCHOOL DISTRICTS, 1984-85 SCHOOL YEAR

	HIGH	LOW	MEDIAN	STATE TOTAL
Average Daily Membership	37,607	87	637	695,823
# Professional Staff (full-time equivalent)	2,470	7	45	44,744
1982 Adjusted Assessed Property Valuation (EARC Per Pupil Unit)	$115,218	$ 135	$36,923	$32,045,315,961*
Operating Expenditure Per Pupil Unit**	$ 6,208	$2,159	$ 2,732	$ 2,808

* State total for this item is not amount per pupil unit.

** Excludes capital costs, debt service costs, and federal education aids. "State Total" for this item is state mean.

Sources: School District Profiles, 1984-85, State of Minnesota, Department of Education, May, 1986

Also Research Department, Minnesota House of Representatives

Table 2

AVERAGE DAILY MEMBERSHIP IN MINNESOTA PUBLIC SCHOOLS 1972-73 to 1994-95

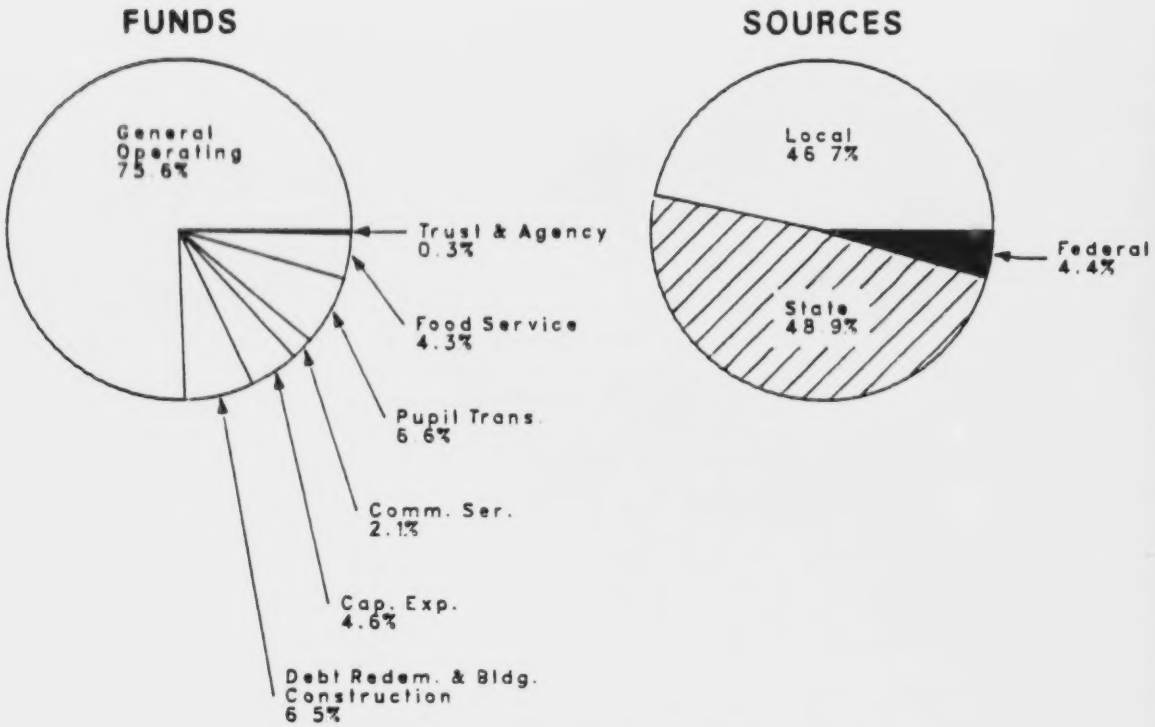
SCHOOL YEAR	AVERAGE DAILY MEMBERSHIP	PERCENT CHANGE FROM PRIOR YEAR
1972-73	903,778	
1973-74	893,465	-1.2%
1974-75	884,648	-1.0%
1975-76	874,961	-1.1%
1976-77	856,964	-2.1%
1977-78	831,250	-3.1%
1978-79	803,312	-3.5%
1979-80	772,101	-4.0%
1980-81	751,373	-2.8%
1981-82	729,105	-3.1%
1982-83	710,970	-2.6%
1983-84	700,183	-1.5%
1984-85	695,819	-0.6%
1985-86*	695,638	-0.2%
1986-87*	697,775	+0.3%
1987-88*	698,526	+0.1%
1988-89*	696,912	-0.2%
1989-90*	696,719	-0.03%
1990-91*	702,522	+0.8%
1991-92*	711,612	+1.3%
1992-93*	720,866	+1.3%
1993-94*	728,508	+1.1%
1994-95*	736,005	+1.0%

* Projected

Source: Minnesota Public School Enrollment Projects--1986 Edition, State of Minnesota, Department of Education, February, 1986

Figure 1

Total School District Revenues* 1984-1985
Distribution by Fund and Source



TOTAL SCHOOL DISTRICT REVENUES* 1984-1985
DISTRIBUTION BY FUND AND SOURCE

School District Fund Allocations**	% of Total Revenues	% From Local Sources	% From State Sources	% From Federal Sources
General Operating	75.6	41.8	54.9	3.3
Food Service	4.3	56.7	3.5	39.8
Pupil Transportation	6.6	35.5	64.5	-
Community Service	2.1	65.5	31.1	3.4
Capital Expenditure	4.6	69.4	29.3	1.3
Debt Redemption and Building Construction	6.5	83.3	16.5	.2
Trust and Agency	.3	82.3	3.9	13.8
TOTAL	100.	46.7	48.9	4.4

* Excludes AVTI Re nues

** Excludes circuit breaker and state contributions to Teacher Retirement Associations

Source: Minnesota Department of Education, School Financial Management Section Printout, April 10, 1986

Basic School Finance Terms and Concepts

The following terms and concepts are essential to an understanding of the school finance program.

Adjusted Maintenance Cost: the state and local current operating expenditures of a district for the elementary-secondary school program. Excludes expenditures for transportation, capital purposes, debt service and community education, and includes expenditures for staff salaries, supplies and materials, and building maintenance.

Assessed Property Valuation: the value placed on real property by the county assessor and used as a basis for computing taxes. In Minnesota this value is derived by adjusting the market value of the property by classification (use) ratios.

Adjusted Assessed Property Valuation: See "EARC."

Average Daily Membership (ADM): the sum for all pupils of the number of days in the district's school year each pupil is enrolled, divided by the number of days the schools are in session.

Basic Maintenance Mill Rate: the rate used to determine the dollar amount which a district may levy under the basic foundation aid formula to be used for the current operating costs of the school district.

For levies made in October 1984 and collected in 1985, the basic maintenance mill rate is 23.5 mills, which is multiplied by the district's EARC to determine the dollar amount the district may levy under the basic foundation aid formula.

Beginning with levies made in October 1985 and collected in 1986, and each year thereafter, the basic maintenance mill rate is a mill rate, which when multiplied by the state's total adjusted assessed property valuation, will raise a dollar amount specified by the Legislature.

For levies made in October 1985 and collected in 1986, the established rate shall raise a total of $702,000,000 and is equivalent to 23.2 mills.

For levies made in October 1986 and collected in 1987, the established rate shall raise a total of $692,000,000.

Categorical Aid: funds paid by the state to school districts and designated for specific purposes, such as transportation, special education for handicapped children and vocational education.

EARC (Adjusted Assessed Property Valuation): the assessed value of the real property in a school district as adjusted by the Equalization Aid Review Committee (EARC) through the use of ratios comparing the actual sales and rental price of property with its assessed value. The purpose of such adjustments is to neutralize the effect of different assessment practices among the taxing jurisdictions of the state.

Equalizing Factor: the maximum amount of adjusted assessed valuation per pupil unit a district may have without going "off the formula"--i.e., becoming disqualified from receiving basic state foundation aid. A district receives no such aid when the amount raised by the basic maintenance mill rate times its EARC valuation exceeds its basic foundation revenue (i.e., number of pupil units times the formula allowance). The equalizing factor is computed by dividing the formula allowance by the basic maintenance mill rate. It is $67,447 for 1984 payable 1985 levies and 1985-86 foundation aid and $72,845 for 1985 payable 1986 levies and 1986-87 foundation aid.

Fiscal Year: a 12-month period between settlements of financial accounts. The fiscal year for the state and school districts runs from July 1 through June 30, and is identified by the calendar year in which it ends. For example, fiscal year 1987 runs from July 1, 1986 through June 30, 1987. A fiscal year is interchangeable with a school year for school finance purposes. For example, fiscal year 1987 is equivalent to the 1986-87 school year.

Formula Allowance: the dollar amount per pupil unit used to calculate each district's basic foundation aid--the "front end" of the formula. The formula allowance is $1,585 for the 1985-86 school year, $1,690 for the 1986-87 school year, and $1,700 for the 1987-88 school year.

Foundation Aid: funds paid by the state to school districts and permitted to be used for any operating expense. Foundation aid is comprised of: basic foundation aid; five tiers of discretionary aid which will be equalized at differing percentages of the equalizing factor; declining pupil unit aid; minimum aid; and shared time pupil aid.

Levy: a tax imposed on property. The amount of property taxes which a school board may levy is limited by statute. Each autumn, the state department of education computes the exact amounts of the limits on the permitted levies for each district. For levies based on EARC, the previous year's EARC value is used. Each October, school boards vote on how much to levy and "certify" the levy to the county auditor. A levy made in October is collected in the calendar year beginning in the following January. (See the chart on page 81 for illustration of the relationship among the years for EARC valuation and the certification, collection and use of levies.)

Maintenance Levies: levies used to pay for the current operating expenses of the district. Beginning with the 1983 payable 1984 levies, the "maintenance levies" include the basic maintenance levy, cost differential tier levy, second tier levy, third tier levy, fourth tier levy, fifth tier levy, declining pupil unit levy, referendum levy, unemployment compensation levy, judgment levy, liability levy, consolidation levy, audit levy, tort liability insurance levy, and desegregation levy.

Mill Rate: A number which is multiplied by property valuation in order to determine the amount of property taxes. A mill is $.001, so that, for example, a tax rate of 12 mills is applied by multiplying .012 times the valuation. In other words, the actual tax is determined using the mill rate divided by 1,000. Thus, if the valuation is $1,000,000, a 12 mill tax is computed as follows:

$$\text{Tax} = \frac{12}{1{,}000} \text{ (or .012)} \times \$1{,}000{,}000 = \$12{,}000$$

Pupil Unit: a weighted count of resident pupils in average daily membership used in the calculation of state aid and local tax levies.

1. Annual Enrollment Weighted by Grade
   Kindergarteners are counted at .5 pupil units, elementary students at 1.0 pupil units and secondary students at 1.4 pupil units. Handicapped pre-schoolers are counted according to the number of hours of education they receive, with a minimum of .5 pupil units. This pupil unit count is often called "actual pupil units", "weighted average daily membership," or "WADM." A district's WADM changes every year as its enrollment changes.

2. AFDC Pupil Units
   Through the 1985-86 school year, districts are considered to have 98.5% of the number of AFDC pupil units they had in 1980-81. Beginning in the 1986-87 school year, AFDC pupils will be computed annually based on the actual number of AFDC pupils in the district in the preceding October, rather than frozen at 98.5% of the 1980-81 AFDC pupil count. AFDC pupil units amount to .5 pupil unit for each student whose family receives Aid to Families with Dependent Children. Districts which have a concentration of AFDC students of 6% or more of the enrollment receive an additional .1 pupil unit per AFDC student for each percent of concentration greater than 5 percent, up to a maximum of .6 extra units. These counts produce the following combined weightings:

Percent Concentration	P.U. Weight Per AFDC Student
Less than 5%	.5
5-6%	.5
6-7%	.6
7-8%	.7
8-9%	.8
9-10%	.9
10-11%	1.0
Greater than 11%	1.1

Sparsity Aid: aid paid to small, sparsely populated school districts for one year only (1979-80). The sparsity aid formula took into account the secondary enrollment, the distance between high schools, and the surface area of the district. The cost differential tier allowance in the current foundation aid formula includes a sparsity allowance which is based in part on a district's sparsity replacement aid component from the 1980-81 school year.

UFARS (Uniform Financial Accounting and Reporting Standards): rules and instructions adopted by the state board of education under legislative mandate to govern the methods by which school districts record financial transactions and inform the state department of education about their finances.

Foundation Aid Program

OVERVIEW

The foundation aid program provides school districts with general operating funds. It is the largest source of funds for Minnesota school districts. The program consists of a number of components, most of which provide a specified amount of revenue through a combination of state appropriated aid and local property taxes. The amount of state aid is determined by subtracting the local taxes from the specified revenue. In general, local tax rates are uniformly limited by the state, so that the local share is higher in districts with relatively higher property valuation. In districts with the highest property valuation, no foundation aid is paid and only the specified amount of revenue may be collected from local taxpayers. A detailed description of the five tier foundation aid program for the 1984-85 and following school years follows*.

BASIC PLUS FIVE TIER FOUNDATION AID PROGRAM

- M.S. 124A.01-124A.20

The 1983 Legislature enacted a new foundation aid program which contains substantial changes from the old foundation aid program. Beginning with the 1984-85 school year and levies certified in 1983, the grandfather, replacement, discretionary and low fund balance components of the foundation aid program were replaced with five tiers of discretionary aid and levy. These five tiers are equalized at various percentages of the equalizing factor. The main characteristics of the five tier program are equal access to revenues, recognition of some specific cost differences, and more discretion on the part of local school boards in choosing the necessary level of revenue. The five tier foundation aid program consists of the following components, which are described in detail on succeeding pages:

1. Basic aid and levy: the largest foundation aid component, providing uniform revenue per pupil unit to all districts in amounts of approximately $726,000,000 in aid and $702,000,000 in levy revenue in 1986-87 (p. 13).

2. Cost differential tier aid and levy: additional fully equalized levy authority and matching aid for districts based on differing costs due to higher than average teacher training and experience, and previous entitlement to sparsity revenue, providing approximately $51,000,000 in aid and $57,000,000 in levy revenue in 1986-87 (p. 15).

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* For a detailed description of the components of the foundation aid program in effect for years prior to the 1984-85 school year, see Minnesota School Finance, House Research Department, December, 1983.

3. Second tier aid and levy: additional fully equalized levy authority and matching aid of $150 per actual pupil unit, minus the amount by which a district's fund balance exceeds $500 per total pupil unit, providing approximately $55,000,000 in aid and $52,000,000 in levy revenue in 1986-87 (p. 17).

4. Third tier aid and levy: additional levy authority and matching aid of $100 per actual pupil unit, which is equalized at 75 percent and provides approximately $30,000,000 in aid and $50,000,000 in levy revenue in 1986-87 (p. 19).

5. Fourth tier aid and levy: additional levy authority and matching aid of $100 per actual pupil unit, plus an amount based on differing costs due to higher than average teacher training and experience, all of which is equalized at 50 percent and provides approximately $12,000,000 in aid and $67,000,000 in levy revenue in 1986-87 (p. 21).

6. Fifth tier aid and levy: additional levy authority and matching aid for those districts for which the new tier formula provides an increase in the first four tiers of less than $25 per actual pupil unit (or, in 1986-87 and after, $50 per actual pupil unit) over the amount the district would have received under the old foundation aid formula. This tier is equalized at 50 percent and provides approximately $270,000 in aid and $3,490,000 in levy revenue in 1986-87 (p. 23).

7. Minimum aid: aid paid to ensure that heavily agricultural districts receive at least $800 per pupil unit from state sources. No districts are eligible for this aid in 1986-87 (p. 29).

8. Shared time pupil aid: foundation aid paid to districts for the cost of educating nonpublic school pupils who attend public school part-time, providing approximately $1,944,000 in 1986-87 (p. 29).

9. Declining pupil unit aid: established by the 1985 Legislature and effective for the 1986-87 school year and thereafter. Additional levy authority and matching aid for school districts where the number of pupil units in the district has declined from the previous year, equalized at 75%. Provides approximately $2,000,000 in aid and $9,000,000 in levy revenue in 1986-87 (p. 26).

The new five tier foundation aid program is being phased in over four years in equal amounts. Districts receive 25 percent of the difference between the new total tier allowance and the old foundation aid program amount in the 1984-85 school year, 50 percent of the difference in the 1985-86 school year, 75 percent of the difference in the 1986-87 school year, and 100 percent of the difference in the 1987-88 school year and thereafter. All districts are guaranteed at least a minimum increase in revenue due to the tier formula of $25 per total pupil unit in 1984-85 and 1985-86, and an additional $25 minimum increase in 1986-87 and 1987-88.

BASIC FOUNDATION AID FORMULA

- M.S. 124A.02, subdivisions 5, 6, 7, and 9; 124A.03, subdivisions 1, 1a, and 3

A. Explanation

The formula to determine the amount of basic foundation aid paid by the state to each school district is as follows:

$$\text{Formula Allowance} \times \text{Number of Pupil Units in District} - \left(\text{Basic Maintenance Mill Rate} \times \text{EARC (Adjusted) Assessed Property of Dist.} \right) = \text{Basic Foundation Aid}$$

For the 1986-87 school year, the formula allowance is $1,690 and the basic maintenance mill rate is 23.2 mills (.0232). All districts receive total revenue amounting to $1,690 times pupil units from the combination of state foundation aid and the basic maintenance levy, but the proportion of that revenue derived from the state aid varies inversely with district's EARC valuation. A hypothetical district where the EARC is zero would receive basic foundation aid equal to $1,690 times pupil units. All districts are guaranteed revenue of $72.84 per pupil unit per mill of local tax effort.

A district where the EARC per pupil unit is $72,845 or greater receives no foundation aid. Such a district is commonly said to be "off the formula." Fifteen districts are off the formula in 1986-87. The basic maintenance levy for these districts is limited to the formula allowance times pupil units. If, however, the dollar amount of the basic maintenance levy certified by the district in 1977 (payable in 1978) exceeds the allowable levy for an off-formula district, the district may levy the amount certified in 1977, provided that the levy does not exceed the amount raised by applying the basic maintenance mill rate (23.2 mills).

For the 1987-88 school year, the formula allowance is $1,700.

B. Determination of Basic Maintenance Mill Rate

Beginning with 1985 payable 1986 levies (for the 1986-87 school year), the Legislature sets the basic maintenance mill rate indirectly by specifying the total amount that must be raised by all districts with this levy. When final EARC valuations are available, the Commissioner of Revenue calculates the mill rate that is needed to collect the specified dollar amount. For 1985 payable 1986 levies, the specified amount was $702,000,000, and the basic maintenance mill rate was set at 23.2 mills to raise this amount. For 1986 payable 1987 levies (1987-88 school year), the specified amount is $692,000,000; the requisite mill rate will not be known until final 1985 EARC valuations are calculated.

Prior to the 1985 payable 1986 levies, the Legislature specified the basic maintenance mill rate. The purpose of the change is to introduce greater stability to local levies and to the state's aid obligations.

C. Example - 1986-87 School Year

ASSUMPTIONS

	AVERAGE VALUATION DISTRICT	LOW VALUATION DISTRICT	HIGH VALUATION DISTRICT	OFF-FORMULA DISTRICT
Actual & AFDC Pupil Units	1,000	1,000	1,000	1,000
Formula Allowance	$1,690	$1,690	$1,690	$1,690
Adj. Assessed Property Valuation (EARC)	$40,000,000	$20,000,000	$60,000,000	$80,000,000
Basic Maintenance Mill Rate	23.2 mills	23.2 mills	23.2 mills	23.2 mills

FOUNDATION AID FORMULA COMPUTATIONS

DISTRICT	FORMULA ALLOWANCE X PU	-	MILL RATE X EARC	=	STATE FOUNDATION AID
Average Valuation	$1,690 X 1,000 P.U.	-	.0232 X $40,000,000	=	$ 762,000
Low Valuation	$1,690 X 1,000 P.U.	-	.0232 X $20,000,000	=	$1,226,000
High Valuation	$1,690 X 1,000 P.U.	-	.0232 X $60,000,000	=	$ 298,000
Off-Formula	$1,690 X 1,000 P.U.	-	.0232 X $80,000,000	=	$ -0-

COMPARISON OF STATE FOUNDATION AID AND LOCAL LEVY CONTRIBUTION

	AVERAGE VALUATION DISTRICT	LOW VALUATION DISTRICT	HIGH VALUATION DISTRICT	OFF-FORMULA DISTRICT
State Foundation Aid Share	$ 762,000	$1,226,000	$ 298,000	-0-
Local Levy Share	$ 928,000	$ 464,000	$1,392,000	$1,690,000
Total Basic Foundation Revenue	$1,690,000	$1,690,000	$1,690,000	$1,690,000
Percent State Foundation Aid	45.1	72.5	17.6	-0-
Percent Local Levy	54.9	27.5	82.4	100.0

COST DIFFERENTIAL TIER AID AND LEVY

- M.S. 124A.06

A. Explanation

The cost differential tier provides revenue to districts based on a recognition of differing costs for districts due to two factors: higher than average teacher training and experience, and previous entitlement to sparsity aid. The Department of Education is responsible for developing a "training and experience index" which is a measure of a district's teacher training and experience relative to the training and experience of teachers in the state.

The amount of revenue provided to each district each year through the cost differential tier equals the cost differential tier allowance times the actual pupil units for that year. The cost differential tier allowance for 1986-87 equals the sum of: (1) the district's 1980-81 entitlement to sparsity aid, inflated at the same rate as the foundation aid formula allowance has increased since 1980-81, multiplied by two; and (2) the difference between the district's training and experience index and 1.25, multiplied by $400.

The state pays cost differential aid equal to the same proportion of the district's cost differential revenue as is paid by the state of the district's basic foundation revenue (100 percent equalization). For example, for the 1986-87 school year, each mill that a school district levies in the basic foundation program brings the district revenue of at least $72.84 per pupil unit from the combination of state aid and local levy. The combination of state aid and local levy for the cost differential tier provides the same amount per mill as does the basic foundation program--$72.84 per pupil unit.

$$\text{Cost Differential Tier Allowance Per Pupil Unit} = \left(2 \times \text{District's 1980-81 Sparsity Aid} \times \text{Foundation Aid Formula Allowance Inflator}\right) + \left[\left(\text{District's Training and Experience Index} - 1.25\right) \times 400\right]$$

Cost Differential Tier Revenue = Cost Differential Tier Allowance X Actual Pupil Units

Cost Differential Levy = lesser of:

(1) Cost Differential Tier Revenue, or

(2) $\frac{\text{District's EARC}}{\text{Total Pupil Units}} \div \text{Equalizing Factor} \times \text{Cost Differential Tier Revenue}$

Cost Differential Tier Aid = Cost Differential Tier Revenue - Cost Differential Tier Levy

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B. Example - 1985 Payable 1986 Levy and 1986-87 Aid

ASSUMPTIONS

Actual and Total Pupil Units	1,000
EARC Valuation Per Pupil Unit	$30,000
Sparsity Allowance	$ 40
Training and Experience Index	1.50
Equalizing Factor ($1,690 ÷ .0232)	$72,845

1986-87 SCHOOL YEAR

Cost differential tier allowance: $40 + [(1.50 - 1.25) x $400] = $140

Cost differential tier revenue: $140 x 1,000 = $140,000

Cost differential tier levy: $\frac{\$30,000}{\$72,845} \times \$140,000 = \$57,657$

Cost differential tier aid: $140,000 - $57,657 = $82,343

SECOND TIER AID AND LEVY

- M.S. 124A.08

A. Explanation

The second tier allowance is $150 per actual pupil unit. The district's second tier revenue for each school year equals the second tier allowance times its actual pupil units for that school year.

The state pays second tier aid equal to the same proportion of the district's second tier revenue as is paid by the state of the district's basic foundation aid revenue (100 percent equalization). The combination of state aid and local levy guarantees that a district will receive at least $72.84 per pupil unit for every mill the district levies for second tier revenue.

However, a district's permitted second tier revenue is reduced by the amount by which a district's net unappropriated operating fund balance exceeds $500 per total pupil unit in the year when the levy is certified. The district's second tier levy is reduced by the amount of the excess times the lesser of: (a) one, or (b) the ratio of the preceding year's EARC per total pupil unit to the equalizing factor. The district's second tier aid is reduced by the amount of the excess that is not subtracted from the levy.

Second Tier Allowance Per Pupil Unit = $150

$$\text{Second Tier Revenue} = \left(\text{Second Tier Allowance} \times \text{Actual Pupil Units}\right) - \text{Unappropriated Operating Fund Balance} - (\$500 \times \text{Total Pupil Units})$$

Second tier levy = lesser of

(1) the district's second tier revenue, or

(2) $\left(\frac{\text{District's EARC}}{\text{Total Pupil Units}} \div \text{Equalizing Factor}\right) \times$ Second Tier Revenue

Second Tier Aid = Second Tier Revenue - Second Tier Levy

B. Example - 1985 Payable 1986 Levy and 1986-87 Aid

ASSUMPTIONS

Actual and Total Pupil Units	1,000
EARC Valuation Per Pupil Unit	$30,000
District's Fund Balance Per Pupil Unit	$ 400
Equalizing Factor	$72,845

1986-87 SCHOOL YEAR

Second tier allowance: $150

Second tier revenue: $150 x 1,000 = $150,000

Second tier levy: $\frac{\$30,000}{\$72,845} \times \$150,000 = \$61,775$

Second tier aid: $150,000 - $61,775 = $88,225

(Since the district's fund balance per total pupil unit is less than $500, the district's second tier allowance is not reduced.)

THIRD TIER AID AND LEVY

- M.S. 124A.10

A. Explanation

The third tier allowance is $100 per actual pupil unit. The district's third tier revenue for each school year equals the third tier allowance times the district's actual pupil units for that school year.

The state pays third tier aid based on 75 percent of the equalizing factor for the school year to which the third tier levy is attributable. In other words, for every mill levied by a district in the third tier, the district is guaranteed at least $54.63 per pupil unit from the combination of state aid and local levy (75 percent of the $72.84 per pupil unit that is guaranteed for each mill levied in the basic foundation program).

Third Tier Allowance Per Pupil Unit = $100

Third Tier Revenue = Third Tier Allowance X Actual Pupil Units

Third Tier Levy = the lesser of

(1) the district's third tier revenue, or

(2) $\left[\frac{\text{District's EARC}}{\text{Total Pupil Units}} \div (.75 \times \text{Equalizing Factor})\right] \times \text{Third Tier Revenue}$

Third Tier Aid = Third Tier Revenue - Third Tier Levy

B. Example - 1985 Payable 1986 Levy and 1986-87 Aid

ASSUMPTIONS

Actual and Total Pupil Units	1,000
EARC Valuation Per Pupil Unit	$30,000
Equalizing Factor	$72,845

1986-87 SCHOOL YEAR

Third tier allowance:	$100
Third tier revenue:	$100 X 1,000 = $100,000
Third tier levy:	$\frac{\$30,000}{(.75 \times 72,845)} \times \$100,000 = \$54,911$
Third tier aid:	$100,000 - $54,911 = $45,089

FOURTH TIER AID AND LEVY

- M.S. 124A.12

A. Explanation

The fourth tier allowance is $100 per actual pupil unit, plus an additional amount of revenue based upon the teacher training and experience index (T&E index) of the district. The district's fourth tier revenue equals the fourth tier allowance times the district's actual pupil units for that school year.

The state pays fourth tier aid based on 50 percent of the equalizing factor for the school year to which the fourth tier levy is attributable. That is, for every mill levied by a district in the fourth tier, the district is guaranteed at least $36.42 per pupil unit from the combination of state aid and local levy (50% of the $72.84 per pupil unit that is guaranteed for each mill levied in the basic foundation program).

Fourth Tier Allowance Per Pupil Unit = $100 + [(District T&E index - 1.25) x $150]

Fourth Tier Revenue = Fourth Tier Allowance x Actual Pupil Units

Fourth Tier Levy = the lesser of

(1) the district's fourth tier revenue, or

(2) $\left[\frac{\text{District's EARC}}{\text{Total Pupil Units}} \div (.50 \times \text{Equalizing Factor})\right] \times \text{Fourth Tier Revenue}$

Fourth Tier Aid = Fourth Tier Revenue - Fourth Tier Levy

For an explanation of the training and experience index, see page 15.

B. Example - 1985 Payable 1986 Levy and 1986-87 Aid

ASSUMPTIONS

Actual and Total Pupil Units	1,000
EARC Valuation Per Pupil Unit	$30,000
Equalizing Factor	$72,845
Training and Experience Index	1.50

1986-87 SCHOOL YEAR

Fourth tier allowance: $100 + [(1.50 - 1.25) x $150] = $100 + $37.50 = $137.50

Fourth tier revenue: $137.50 X 1,000 = $137,500

Fourth tier levy: $\frac{\$30,000}{(.50 \times \$72,845)} \times \$137,500 = \$113,254$

Fourth tier aid: $137,500 - $113,254 = $24,246

FIFTH TIER AID AND LEVY

- M.S. 124A.14

A. Explanation

The fifth tier provides revenue only to districts for which the tier formula provides an increase in the first four tiers of less than $50 per total pupil unit over the amount the district would have received under the foundation aid formula in effect in the 1983-84 school year. (For the 1984-85 and 1985-86 school years, this minimum increase was $25 per total pupil unit.)

The fifth tier allowance is the amount of revenue per actual pupil unit that a district would have received in 1984-85 if the grandfather, replacement, discretionary and low fund balance aids and levies had been in effect, plus $25 per 1984-85 total pupil unit divided by 1984-85 actual pupil units, minus the sum of the cost differential tier allowance, second tier allowance, third tier allowance, and fourth tier allowance. In computing the fifth tier allowance, maximum discretionary allowance is assumed to be available to all districts.

The state pays fifth tier aid based on 50 percent of the equalizing factor for the school year to which the fifth tier levy is attributable. The balance of the fifth tier revenue is provided through the local levy.

Fifth Tier Allowance = 1984-85 revenue entitlement per actual pupil unit under repealed grandfather replacement, low fund balance and discretionary aids and levies plus $50 per pupil unit minus revenue entitlement per pupil unit under first through fourth tiers (assuming maximum available discretionary allowance).

Fifth Tier Revenue = Fifth Tier Allowance x Actual Pupil Units

Fifth Tier Levy = the lesser of:

(1) The district's fifth tier revenue, or

(2) $\left[\frac{\text{District's EARC}}{\text{Total pupil units}} \div (.50 \times \text{Equalizing Factor})\right] \times$ Fifth tier revenue

Fifth Tier Aid = Fifth Tier Revenue - Fifth Tier Levy

B. Example - 1985 Payable 1986 Levy and 1986-87 Aid

ASSUMPTIONS

Actual and Total Pupil Units	1,000
EARC Valuation per Pupil Unit	$30,000
Equalizing Factor	$72,845
Revenue Entitlement per Pupil Unit Under Old Formula	$ 520
Revenue Entitlement per Pupil Unit Under 1st-4th tiers	$ 500

1986-87 SCHOOL YEAR

Fifth Tier Allowance: $520 + $50 - $500 = $70

Fifth Tier Revenue: $70 x 1,000 = $70,000

Fifth Tier Levy: $\frac{\$30,000}{.50 \times 72,845} \times \$70,000 = \$57,657$

Fifth Tier Aid: $70,000 - $57,657 = $12,343

PHASE-IN OF TIER REVENUE

- M.S. 124A.16

The change to the five-tier formula provided many districts with substantial amounts of new revenue. The law establishing the five-tier formula provided that any increases in excess revenue resulting from the enactment of the five-tier formula would be phased-in over a four year period, beginning with the 1984-85 school year. Revenue increases are allotted to the lowest numbered tiers. The phase-in schedule for revenue increases is:

School Year	Amount of Revenue Increase District is Allowed to Receive
1984-85	25%
1985-86	50%
1986-87	75%
1987-88	100%

However, as noted above in the description of the fifth tier aid and levy, each district is assured an increase of at least $25 per total pupil unit in 1984-85 and 1985-86, and $50 per total pupil unit in 1986-87 and 1987-88.

DECLINING PUPIL UNIT AID AND LEVY

- M.S. 124A.20

A. Explanation

The 1985 Legislature established a new component of foundation revenue for districts where the total number of pupil units has declined from the previous year. This new source of revenue commences in the 1986-87 school year. Declining pupil unit revenue is not considered to be tier revenue, so is not subject to the phase-in limitations.

Declining pupil unit revenue is designed to compensate districts for one-thirtieth of a full-time teacher's salary for each pupil unit lost. The teacher salary amount is the statewide average salary for beginning teachers, multiplied by the teacher training and experience index for the district. The state pays declining pupil unit aid based on 75 percent of the equalizing factor. The remainder of the declining pupil unit revenue is provided from the local levy.

$$\text{Declining Pupil Unit Revenue} = \frac{\text{Pupil Units in Preceding Year} - \text{Pupil Units in Current Year}}{30} \times \text{Statewide Average Beginning Teacher Salary} \times \text{Teacher Training and Experience Index}$$

Declining Pupil Unit Levy = the lesser of

(1) the district's declining pupil unit revenue, or

(2) $\left[\frac{\text{District's EARC}}{\text{Total Pupil Units}} \div (.75 \times \text{Equalizing Factor})\right] \times \text{Declining Pupil Unit Revenue}$

$$\text{Declining Pupil Unit Aid} = \text{Declining Pupil Unit Revenue} - \text{Declining Pupil Unit Aid}$$

For an explanation of the teacher training and experience index, see p. 15.)

B. Example - 1985 Payable 1986 Levy and 1986-87 Aid

ASSUMPTIONS

Total Pupil Units, 1985-86	1,025
Total Pupil Units, 1986-87	1,000
EARC Valuation per Pupil Unit	$30,000
Equalizing Factor	$72,845
Teacher Training and Experience Index	1.50
Statewide Average Beginning Salary	$16,693

1986-87 SCHOOL YEAR

Declining Pupil Unit Revenue $= \frac{(1,025 - 1,000)}{30} \times \$16,693 \times 1.50 = \$20,866$

Declining Pupil Unit Levy $= \frac{\$30,000}{(.75 \times \$72,845)} \times \$20,866 = \$11,458$

Declining Pupil Unit Aid $= \$20,866 - \$11,458 = \$9,408$

Additional Features of Foundation Aid Program

MINIMUM FOUNDATION AID

- M.S. 124A.02, subdivisions 11, 12, and 13; 124A.03, subdivision 6

Districts where agricultural land comprises 60 percent or more of the assessed valuation qualify for a minimum amount of basic foundation aid of $800 per actual and AFDC pupil unit. This minimum is reduced by the amount of the district's receipts from the agricultural tax credit, the agricultural and non-agricultural homestead credits (funds provided to compensate districts for state-mandated reductions in the taxes on such property), attached machinery aid (funds provided to districts to compensate them for the removal of attached machinery from the tax rolls in 1973), and other miscellaneous property tax credits. The amount of minimum foundation aid is subtracted from a district's basic maintenance levy authorization. Hence, this provision does not increase any district's total available revenue, but alters the source of some of that revenue. [No district is eligible for this aid in FY 1986, 1987 or 1988.]

SHARED TIME FOUNDATION AID

- M.S. 124A.02, subdivisions 20-22; 124A.034

Districts receive a proportionate amount of basic foundation aid for nonpublic school pupils who attend public school programs for part of the school day.

REFERENDUM LEVY

- M.S. 124A.03, subdivision 2

A district's basic maintenance levy can be increased with the approval of the voters at a referendum called by the school board on its own initiative or on the petition of 15 percent of the school district residents. The increase can be either permanent or limited to a specific number of years. A similar election can reduce or revoke the increase. There is no matching foundation aid for a referendum levy.

REVENUE EQUITY

- M.S. 124.2138; 124A.03, subdivision 3; 124A.037

In an effort to equalize the tax efforts required of all districts, the 1983 Legislature enacted a revenue equity* provision to require all districts to levy the same millage for basic maintenance. The 1985 Legislature repealed the provision, but it is still in effect for the 1985-86 school year for non-agricultural school districts.

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* In other states, such a provision is frequently referred to as "aid recapture".

A district in which the basic maintenance levy mills times the EARC valuation raises an amount which exceeds the allowed foundation revenue (formula allowance times pupil units) is referred to as an "off-formula" district. Prior to enactment of the revenue equity law, off-formula districts were permitted to levy an amount equal to their allowed foundation revenue. Since, by definition, this is less than the basic maintenance levy mills times EARC valuation in an off-formula district, such districts had basic maintenance levies that were at a rate lower than the basic maintenance levy mill rate for on-formula districts.

The revenue equity law changed this so that the basic maintenance levy for all districts, including off-formula districts, would be equal to the basic maintenance mill rate times the district's EARC valuation. For off-formula districts where this millage raised more than the allowed foundation revenue, the district was required to levy a portion of the difference between the millage amount and the allowed foundation revenue. This difference is referred to as the "off-formula amount". The amount of this additional levy is then subtracted from categorical aids due the district.

The revenue equity law was first applied to the 1983 payable 1984 levies (for the 1984-85 school year), and was to be phased in over six years. The additional levy required was to be one-sixth of the off-formula amount for the 1984-85 school year, one-third of the off-formula amount for 1985-86, etc., until the levy was for the full off-formula amount for the 1989-90 school year.

After the first year of implementation (1984-85 school year), the revenue equity law was amended so that it applied only to non-agricultural districts, defined as those districts in which less than 60 percent of the taxable valuation consists of agricultural land. Thus, for the 1985-86 school year, revenue equity levies and categorical aid subtractions are required only of non-agricultural districts. Agricultural districts which are off-formula levy an amount equal to the allowed foundation revenue (formula allowance times pupil units). For the 1986-87 school year and thereafter, the revenue equity law is repealed for all districts, so the basic maintenance levy for all off-formula districts will equal the amount of the district's allowed foundation revenue.

DEDUCTIONS FROM FOUNDATION AID

- M.S. 124A.033, Subdivision 3; 124A.035

A. Underlevies
If a district levies less than the maximum permitted amount of the basic maintenance levy, tier levies, or summer school levy, the corresponding aid is proportionately reduced. This provision applies to basic foundation aid only if the basic maintenance levy goes below 95 percent of the permitted amount.

B. Other Income
Foundation aid is reduced by a district's income from the permanent school fund (proceeds of lands dedicated by the Federal government at statehood and state swamplands), from county apportionment (miscellaneous fines and fees collected by counties and apportioned to school districts), and from taconite payments (see p. 66).

SUMMER SCHOOL PROGRAM FOUNDATION AID

- M.S. 124A.03, subdivisions 4 and 5; 124A.033

The 1984 Legislature established a new equalized aid and levy summer school formula, effective beginning with the 1985 summer school session.

For the 1985 summer school, there are two components of summer school revenue. The first, "summer program instructional revenue" is the product of summer school pupil units, times the foundation aid formula allowance for the preceding school year. The second component, "summer educational improvement revenue allowance", is the product of one-half percent of the foundation aid formula allowance, times the number of actual pupil units in the district in the preceding school year. For fiscal year 1986, (which includes the 1985 summer school program) the summer school revenue can only be used for: (1) summer programs that are offered for credit, required for graduation, or provide academic enrichment or remediation, and (2) expenditures during the summer for curriculum development, staff development, parent or community involvement, experimental educational delivery systems, and other measures designed to improve education in the district.

The 1985 Legislature removed the "summer educational improvement" component from the summer school formula. Therefore, beginning with the 1985 levies and 1986 summer school programs, a district's total "summer program revenue" is the product of summer program pupil units times the foundation aid allowance for the preceding school year. This revenue may only be used for summer instructional programs that are offered for credit, required for graduation, or provide academic enrichment or remediation.

Pupil units for summer school are weighted by grade level and determined according to a count of full-time equivalent pupils. A total of 1,050 hours of enrollment are needed to accrue one pupil. No individual pupil may be counted for more than six hours per day or 120 hours per summer, unless the district obtains the Commissioner's approval. State aid and local levy contribute to providing summer school revenue in the same proportion as for the basic foundation program for the preceding school year. Districts which are off the formula receive no aid, but levy for the entire amount of summer school revenue.

In response to a projected shortfall in the state budget for the 1985-1987 biennium, the 1986 Legislature modified the formula for the 1986 summer school programs. Aid will be paid based upon an equalizing factor of 60 percent instead of 100 percent, which increases the local levy share and decreases the amount of state aid. The change requires the districts to make a levy adjustment for the 1986 summer school programs, but does not alter the available revenue for those programs.

Summer programs for a handicapped pupil must conform to the pupil's individual education plan.

(Appropriations: F. 1986, $7,878,600; F. 1987, $3,145,100)

1985 SUMMER SCHOOL

$$\text{Summer School Pupil Units} = \frac{\text{Total hours of enrollment for all pupils}}{1{,}050} \times \text{Pupil Weighting Factor}$$

(0.5 for kindergarten, 1.0 for elementary, 1.4 for secondary.)

$$\text{Summer Program Instructional Revenue} = \text{Summer School Pupil Units} \times \text{Preceding year's formula allowance}$$

$$\text{Summer Educational Improvement Revenue} = \text{Actual Pupil Units in Preceding Regular School Year} \times \text{Preceding Year's Formula Allowance} \times .005$$

$$\text{Total Summer School Revenue} = \text{Summer Program Instructional Revenue} + \text{Summer Educational Improvement Revenue}$$

Summer School Levy = the lesser of

(1) Total Summer School Revenue, or

(2) Total Summer School Revenue $\times \frac{\text{District EARC/P.U.}}{\text{Equalizing Factor}}$

Summer School Aid = Total Summer School Revenue - Summer School Levy

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Example - Summer School 1985; 1984 Payable 1985 Levy

ASSUMPTIONS

Number of Actual Pupil Units in the District, 1984-85	= 2,000
District 1982 EARC/P.U.	= $30,000
Total Hours of Summer School Enrollment	= 1,600 (elementary) 2,000 (secondary)

Summer School Pupil Units	$= \frac{(1{,}600 \times 1.0) + (2{,}000 \times 1.4)}{1{,}050}$
	= 41.9
Summer Program Instructional Revenue	= (41.9 x $1,475*) = $61,802
Summer Educational Improvement Revenue	= 2,000 x $1,475 x .005 = $14,750
Total Summer School Revenue	= $61,802 + $14,750 = $76,552
Summer School Levy	= $37,368
$\$76{,}552 \times \frac{\$30{,}000}{\$61{,}458**}$	
Summer School Foundation Aid	= $76,552 - $37,368 = $39,184

* 1984-85 Formula Allowance

** 1984-85 Equalizing Factor

1987 SUMMER SCHOOL AND THEREAFTER:

$$\text{Summer School Pupil Units} = \frac{\text{Total hours of enrollment for all pupils}}{1{,}050} \times \text{Pupil Weighting Factor}$$

(0.5 for kindergarten, 1.0 for elementary, 1.4 for secondary.)

$$\text{Summer Program Instructional Revenue} = \text{Summer School Pupil Units} \times \text{Preceding year's formula allowance}$$

Summer School Levy = the lesser of

(1) Summer Program Revenue, or

(2) Summer Program Revenue $\times \frac{\text{District EARC/P.U.}}{\text{Equalizing Factor}}$

Summer School Aid = Summer Program Revenue - Summer School Levy

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Example - Summer School 1987; 1986 Payable 1987 Levy

ASSUMPTIONS

Number of Actual Pupil Units in the District, 1986-87	=	2,000
District 1984 EARC/P.U.	=	$30,000
Total Hours of Summer School Enrollment	=	1,600 (elementary) 2,000 (secondary)

Summer School Pupil Units $= \frac{(1{,}600 \times 1.0) + (2{,}000 \times 1.4)}{1{,}050}$

$= 41.9$

Summer Program Revenue = (41.9 x $1,690*) = $70,811

Summer School Levy = $29,162

$\$70{,}811 \times \frac{\$30{,}000}{\$72{,}845^{**}}$

Summer School Foundation Aid = $70,811 - $29,162 = $41,649

* 1986-87 Formula Allowance

** 1986-87 Equalizing Factor

(NOTE: The formula and an example for the 1986 summer program would be calculated in a similar way, except that the summer school levy would be calculated using 60 percent of the equalizing factor for the 1985-1986 school year instead of 100 percent.

EXCESS LEVY FOR 1985 SUMMER PROGRAMS

For summer programs for non-handicapped pupils in 1983 and 1984, districts were authorized to levy $20 times the number of actual pupil units in the district in the regular school year. For some districts, this levy would have provided more revenue for 1985 summer school than was provided by the reestablished summer school foundation aid and levy. Such districts were authorized to levy an additional amount for summer programs, equal to the difference between the $20 levy and the revenue provided by the new formula.

OTHER REVENUE SOURCES FOR SUMMER SCHOOL

Summer school programs can also be funded with other general fund monies which a district has on hand. Districts can also offer community education programs to school-age children during the summer, using community education monies, and can charge fees for the programs. Districts can also receive special education aid for the salaries of special education teachers serving handicapped pupils in summer school (see p. 45).

Funding of School Transportation

REQUIRED TRANSPORTATION

- M.S. 123.39; 123.76-123.79

School boards are required to provide transportation to and from school or provide board and lodging for all pupils who live two miles or more from school. School boards are required to provide equal transportation for nonpublic school children.

TRANSPORTATION AID

- M.S. 124.223; 124.225

A. Aid Authorization

State transportation aid is provided for certain specified categories of services:

-- Transportation of public and nonpublic school pupils in grades K-6 who live one mile or more from school, and pupils in grades 7-12 who live two miles or more from school (known as the regular transportation category);

-- Transportation to and from secondary vocational centers for secondary vocational classes (nonregular transportation category);

-- Special transportation of handicapped pupils (nonregular category);

-- Board and lodging of pupils in some circumstances (nonregular category);

-- Transportation between schools of nonpublic school students who attend public school classes on a shared time basis or who receive health or guidance services from the public school (nonregular category);

-- Transportation to and from the State School for the Deaf and State Braille and Sight-Saving School (nonregular category);

-- Transportation to, from and between educational facilities in two or more districts for jointly offered academic courses approved by the Commissioner, or for jointly offered secondary vocational courses approved by the Commissioner and not provided at a secondary vocational center (nonregular category);

-- Summer school transportation (in regular category for 1985-86 school year; in nonregular category beginning in 1986-87 school year).

(Appropriation: F. 1986, $88,993,600; F. 1987, $82,638,000)

Aid is also provided to families of pupils who attend school outside the district of residence under the Programs of Excellence or qualify for transportation aid under the Post-Secondary Enrollment Options act.

(Appropriation: for programs of excellence transportation, F. 1986, $17,000; F. 1987, $17,000. For post-secondary enrollment options and transportation, for both F. 1986 and F. 1987, $50,000.)

Aid Computation, 1986-87 School Year

There are three components of pupil transportation aid:

(1) Basic aid;
(2) Nonregular transportation aid;
(3) Nonregular transportation levy equalization aid.

A district's actual transportation aid is equal to the sum of its aid under each of these three components, minus the amount raised by the basic transportation mill rate times the district's adjusted assessed valuation (EARC), and minus an aid reduction for districts which contract for bus service. The basic transportation mill rate was 1.75 mills for 1984 payable 1985 levies (1985-86 school year), and is 2.25 mills for 1985 payable 1986 levies (1986-87 school year and thereafter).

The pupil counts used to calculate aid allocations are the pupils transported in that current school year, rather than the second previous year, as was the practice prior to 1984-85.

1. Basic aid computation

A statistical technique known as multiple regression analysis is used to develop a formula for the determination of basic aid. The regression formula is used to predict the logarithm of each district's "base cost," i.e., cost per full time equivalent pupil transported (FTE) of regular to-and-from school transportation in the base year. The base year is the second previous year.

The regression model uses three terms to predict base year costs for each district:

(1) the logarithm of the lesser of (a) the number of regular FTE's transported per square mile, or (b) 200;
(2) whether the district is non-rural;
(3) the logarithm of the percentage of regular FTE's transported on non-district-owned buses.

The district's base cost as predicted by the regression formula is then adjusted according to the following schedule to determine the district's adjusted authorized predicted cost per FTE. This adjustment is known as "softening", because it is designed to soften the financial impact of the regression formula on school districts.

(a) If the actual base cost of the district is within five percent of the predicted base cost, the district's adjusted authorized predicted cost per FTE is equal to the base cost.

(b) If the actual base cost exceeds the predicted base cost by more than five percent, the district's adjusted authorized predicted cost per FTE is equal to 105 percent of the predicted base cost, plus 40 percent of the difference between (i) the base cost, and (ii) 105 percent of the predicted base cost.

(c) If the actual base cost is less than 95 percent of the predicted base cost, the district's adjusted authorized predicted cost per FTE is equal to 95 percent of the predicted base cost, minus 40 percent of the difference between (i) 95 percent of the predicted base cost, and (ii) the base cost.

In no case shall the adjusted authorized predicted cost be less than 80 percent of actual base cost, or more than 120 percent of actual base cost.

The adjusted authorized predicted cost per FTE is then increased by an inflation factor to determine the district's aid entitlement per FTE. For the 1985-86 school year, the inflation factor is 8.9 percent (applied to data from the base year of 1983-84). For the 1986-87 school year, the inflation factor is 6.0% (applied to 1984-85 data).

The district's basic transportation aid is then computed as:

Basic Aid	=	Aid Entitlement per FTE	x	Number of FTE's in the regular category in the current year

2. Nonregular Transportation Aid Computation

Nonregular transportation services are pupil transportation services for which aid is authorized for the following purposes:

-- transportation between schools;
-- transportation to and from secondary vocational centers;
-- transportation of handicapped pupils;
-- board and lodging for handicapped pupils placed away from home;
-- transportation of nonpublic pupils to public schools or neutral sites for instruction on a shared-time basis, or to receive authorized pupil support services;
-- transportation to and from the Minnesota School for the Deaf and the Minnesota Braille and Sight-Saving School;
-- transportation between districts for cooperatively-offered academic programs; and
-- transportation to and from summer school classes, beginning with the 1986-87 school year.

Nonregular transportation aid is paid to reimburse districts for their expenditures for these purposes. The aid is computed as follows:

Nonregular transportation aid = (20% of the first $10 per total pupil unit of nonregular transportation costs + 40% of the next $10/pupil unit + 60% of any cost over $20/pupil unit) times (Number of total pupil units in the district in the current year)

3. Nonregular transportation levy equalization aid computation

Because nonregular transportation aid does not fully cover a district's expenditures for nonregular transportation services, districts may levy for nonregular transportation costs that are not reimbursed with state aid. This levy for unreimbursed nonregular transportation expenditures is equalized to provide all districts with the same revenue-raising ability per mill that is provided via the basic foundation aid formula, i.e., using an equalizing factor of 100%. The levy is computed as follows:

$$\text{Nonregular Transportation Levy} = \text{Unreimbursed nonregular transportation expenditures} \times \text{the lesser of: 1, or } \frac{\text{district EARC/total P.U.}}{\text{equalizing factor}}$$

The equalizing factor for 1984 payable 1985 levies (1985-86 school year) is $67,447 ($1,585 formula allowance divided by .0235 basic maintenance mill rate). For 1985 payable 1986 levies (1986-87 school year) the equalizing factor is $72,845 ($1,690 formula allowance divided by .0232 basic maintenance mill rate).

Nonregular transportation levy equalization aid is computed as the difference between the district's unreimbursed nonregular transportation expenditures and its nonregular transportation levy:

Nonregular transportation levy equalization aid =

Unreimbursed nonregular transportation expenditures − Nonregular transportation levy

4. Contracted Services Aid Reduction

Districts which contract for some or all of their pupil transportation services will have their aid reduced to account for the portion of these contracts that corresponds to part of the depreciation on the bus fleet. The contracting district is allowed to levy an amount

equal to the aid reduction. This places contracting districts on the same basis as districts which own their own buses, since these also levy for a portion of the capital costs of their bus fleets. The contracted services aid reduction is calculated using the regression model.

C. Examples of Aid Computation for 1986-1987

ASSUMPTIONS

1984-85 Predicted Base Cost per Regular FTE (determined for district using regression analysis)	$ 360
1984-85 Actual Base Cost per Regular FTE	$ 300
1986-87 Number of FTE's Transported in Regular Category	$ 500
1986-87 District Total Pupil Units	$ 980
1984 EARC Valuation	$25,000,000
1986-87 Estimated Nonregular Transportation Costs	$ 22,540

1986-87 Equalizing Factor = $\frac{\$1,690}{.0232}$ = $72,845

Adjusted authorized predicted cost per FTE is equal to:

-- 95% of predicted base cost = (.95) x ($360) = $342.00

-- minus 40% of the difference between (i) 95% of predicted base cost, and (ii) the base cost = (.4)($342-300) = $16.80

Thus, adjusted authorized predicted cost = $342.00 - $16.80 = $325.20

Aid entitlement per FTE = adjusted authorized predicted cost per FTE, increased by inflation factor of 1.06 = $325.20 x 1.06 = $344.71 (round to $345)

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(1) Basic Transportation Aid

$$\text{Basic Aid} = \text{Aid Entitlement per FTE} \times \text{\# Regular FTE's in base year} = (\$345) \times (500 \text{ FTE's}) = \$172{,}500$$

(2) Nonregular Transportation Aid

$$\text{Actual nonregular cost/pupil unit} = \frac{\$22{,}540}{980} = \$23.00$$

Nonregular aid = [(.2) x (1st $10 of actual cost) + (.4) x (2nd $10 of actual cost) + (.6) x (actual cost in excess of $20)] x (# of total pupil units in the district)

= [(.2 x $10) + (.4 x $10) + (.6 x $3)] x 980

= $7.80 x 980

= $7,644

(3) Nonregular Transportation Equalization Aid and Levy

Unreimbursed Nonregular Costs = (Nonregular Transportation Estimated Costs) - Nonregular Aid)

= $22,540 - $7,644

= $14,896

Nonregular Levy = (Unreimbursed nonregular cost) x [the lesser of

$$(1, \text{ or } \frac{\text{EARC/PU}}{\text{equalizing factor}})]$$

$$= \$14{,}896 \times \left(\frac{\frac{\$25{,}000{,}000}{980}}{\$72{,}845} \right)$$

= $5,217

Nonregular Equalization Aid = (Unreimbursed Nonregular Transportation Costs) - (Nonregular Transportation Levy)

So nonregular equalization aid = $14,896 - $5,217 = $9,679

(4) Total Transportation Aid = Basic + Nonregular Transportation Aid + Nonregular Levy Equalization Aid - (2.25 mills X EARC)

Therefore, total transportation aid = $172,500 + $7,644 + $9,679

- (.00225) ($25,000,000)

= $189,823 - $56,250

= $133,573

If the district's transportation aid is a negative amount because its total aid entitlement is less than the subtraction of 2.25 mills, the district is said to be "off the transportation aid formula." In this case the district's transportation levy is reduced accordingly, so that the district only levies an amount equal to its full entitlement.

(NOTE: If the district contracts for some or all of its bus service, there would be an additional subtraction from the district's total transportation aid, as predicted by the regression model. The district would be entitled instead to collect the contracted services aid subtraction via a levy.)

BUS PURCHASE

Authorized transportation costs used in the regression formula include an allowance for depreciation on school buses that are owned by a district. In this way capital costs are implicitly funded. Each year a district which owns its buses must transfer an amount for bus depreciation to a special account dedicated to the purchase of new buses.

TRANSPORTATION LEVY

- M.S. 275.125, Subdivisions 5, 5a, 5c, and 5d

In addition to the basic transportation levy and the non-regular transportation levy described above, districts may levy for transportation as follows:

-- for bus and mobile unit purchases not offset by the portion of state aid which the district must place in a special bus purchase fund;

-- in districts which contract for bus service, an amount to compensate for the fact that these districts cannot levy for the purchase costs of contract buses. The amount of this levy is computed using the regression model, and is equal to the amount of the contracted services aid reduction;

-- for the costs of transportation or related services, such as adult crossing guards, which are necessary because of extraordinary traffic hazards;

-- for the costs of transportation of secondary nonhandicapped pupils living between one and two miles from school;

-- with the Commissioner's approval, for increased transportation costs above the formula limitation due to the leasing of a school in another district.

Funding of Special Education and Education for Limited English Proficient Pupils

SPECIAL EDUCATION MANDATE

- M.S. 120.03; 120.17

Local school districts are required by state law to provide appropriate and necessary special education to handicapped children from 3 to 21 years of age. Approximately 11.3 percent of the pupils in the state receive such special education. The mandate covers pupils who have a hearing impairment, visual handicap, speech or language impairment, physical handicap, other health impairment, mental handicap, emotional/behavioral disorder, specific learning disability, or deaf/blind handicap. The mandate does not include pupils with short-term or temporary physical or emotional disabilities. The statutes and State Board rules specify school district responsibilities for program decisions for handicapped children and for the education of children who are placed outside the district where their parents reside. Districts are permitted to serve handicapped children who have not reached school age. Districts are required to provide special education on a shared time basis to pupils enrolled in nonpublic schools.

SPECIAL EDUCATION FUNDING FORMULA

- M.S. 124.32

For special education for handicapped children, the following state aids are provided:

-- The lesser of 70 percent of the salaries of essential special education personnel or $19,500 during the regular school year or summer school;

-- Fifty percent of expenditures for special supplies and equipment for educating handicapped children, up to $50 per child served;

-- For the regular school year and summer school, 55 percent of the difference between the amount of the contract and the foundation aid formula allowance of the district for any pupils provided special education by contract with an agency other than a school district;

-- For the regular school year and summer school, 60 percent (depending on the appropriation) of the difference between the tuition charged home school districts for the education of handicapped children placed in certain kinds of residential facilities, and the foundation aid formula allowance for each child so placed;

-- One hundred percent of the cost of educating handicapped children who have no home district because their parents' rights have been terminated or

their parent or guardian lives outside the state, less the foundation aid formula allowance and any other aid earned on behalf of such a child;

-- Fifty percent of the necessary travel expenditures of essential personnel providing home-based services to handicapped children under age five and their families.

Special education aid is paid on the basis of applications of programs and budgets submitted for approval by the Commissioner of Education. The appropriations are as follows:

Special Education Aid:	F. 1986, $137,986,300 F. 1987, $142,755,600
Summer School Special Education Aid:	F. 1986, $ 4,239,200 F 1987, $ 4,052,500
Residential Facilities Aid:	F. 1986, $ 1,347,000 F. 1987, $ 1,400,900
Home-based Services Travel Aid:	F. 1987, $ 198,600

FUNDING OF EDUCATION FOR LIMITED ENGLISH PROFICIENT STUDENTS

- M.S. 124.273; 126.261-126.269

The Education for Limited English Proficient Students Act, enacted by the 1980 Legislature, makes state aid available to all school districts which operate bilingual education or English-as-a-second language programs. A bilingual education program is one in which pupils receive instruction in basic subjects in their native language and instruction in English language skills until they are sufficiently proficient in English to successfully perform ordinary classwork in English. An English-as-a-second language program is one in which pupils are taught to read, write, listen, and speak in English.

State aid for these programs is provided as follows:

-- The state pays the lesser of 65 percent of one full-time teacher's salary or $18,100 per 45 limited English proficient pupils (LEP's), or the lesser of a pro rata portion of the 65 percent of a full-time teacher's salary or $18,100 for less than 45 LEP's, with a guarantee of the lesser of 65 percent of one half-time teacher's salary or $9,050 in districts with 22 or fewer LEP's. (Appropriation: F. 1986, $2,713,800; F. 1987, $2,843,900.)

SPECIAL EDUCATION LEVY

- M.S. 275.125, subdivision 8c

To compensate for the revenue loss resulting from imposing a dollar amount limit on state aid for special education salary costs, the 1985 Legislature authorized school districts to levy for the unreimbursed special education and Limited English Proficiency program salary costs, but only up to the amount of revenue lost due to the imposition of the aid limit. For example, if 70 percent of a special education teacher's salary exceeded the amount of available state and federal aid, the district is allowed to levy for the difference between 70 percent of the actual salary and the available state and federal aid.

Special education cooperatives and intermediate districts are not authorized to make this levy, but may allocate among each of the member districts an amount equal to 70 percent (or 65 percent for limited English proficiency programs) of the salaries paid to essential personnel minus the amount of state aid and federal aid, if any, that is paid to that intermediate district or special education cooperative for teachers' salaries.

School districts were authorized to make a double levy in 1985 for the authorized amounts of unreimbursed costs of salaries for fiscal years 1986 and 1987.

Funding of Community, Early Childhood, and Adult Education

COMMUNITY EDUCATION PROGRAMS

- M.S. 121.85-121.88; 124.271; 275.125, subdivision 8

Districts establishing a community education program must provide for a citizens' advisory council to advise the school administration on how best to use school facilities and community resources.

The levy for the community education is limited to the lesser of:

(1) .8 EARC mill, or

(2) the greater of:

(a) $5.25 per capita in 1985-86, increasing to $5.35 per capita in 1986-87, and $5.50 per capita in 1987-88, or

(b) $7,000, for the 1985-86 school year, increasing to $7,140 in 1986-87 and $7,340 in 1987-88.

In addition, those districts which received greater community education revenue in fiscal year 1983 than they would receive under the levy and aid formula for fiscal year 1985 were authorized to levy an additional amount equal to the difference in revenue between the two years, excluding any revenue reductions due to budget cuts for fiscal year 1983. A similar computation will be made for levies in future years, so that districts will have available at least as much revenue as they had in fiscal year 1983, plus any other authorized increases in revenue.

In the 1985-86 school year, districts which levy for community education programs shall receive in state aid an amount equal to:

(The greater of: $7,000, or $5.25 per capita) minus .8 EARC mill

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In the 1986-87 school year, the same formula shall apply, except that the amount per capita is increased from $5.25 to $5.35, and the minimum total revenue from $7,000 to $7,140. In the 1987-88 school year, the amount per capita is increased from $5.35 to $5.50, and the minimum total revenue from $7,140 to $7,340.

The amount of aid shall be reduced for any district which levies less than the maximum for community education, in proportion to the amount of the underlevy.

For the 1985-86 school year, 379 districts made the community education levy and 164 are eligible to receive aid. Many districts charge fees for community education programs. (Appropriation: F. 1986, $1,671,800; F. 1987, $1,693,900.)

PROGRAMS FOR HANDICAPPED ADULTS

- M.S. 121.88, subdivisions 6 and 7; 124.271, subdivision 7; 275.125, subdivision 8, clause 4

Beginning with the 1985-86 school year, districts may offer programs for handicapped adults as part of their community education programs. Handicapped adult programs include outreach activities to identify adults needing service, classes specifically for handicapped adults, services enabling the adults to participate in community education, and activities to increase public awareness and enhance the role of handicapped people in the community. To be eligible for handicapped adult program revenue, a program description and budget must receive approval from the Department of Education.

Up to one-half of a district's handicapped adult program revenue is provided by state aid equal to the lesser of $25,000 or one-half of the approved program budget. The remainder of a district's program revenue is composed of funds from other public or private sources, or a levy not to exceed $25,000 or one-half of the approved program budget.

In addition to the 1985 levy authorized for 1986-87 handicapped adult programs, school districts could also levy in 1985 for approved handicapped adult programs offered in the 1985-86 school year up to the lesser of $25,000 or one-half of the program budget. (Appropriation: F. 1986, $250,000; F. 1987, $350,000)

EARLY CHILDHOOD FAMILY EDUCATION PROGRAMS

- M.S. 121.882; 124.2711; 275.125, subdivision 8b

Districts which provide community education programs may also establish early childhood family education programs, defined as programs for children prior to entering kindergarten, for their parents, and for expectant parents. These programs must require substantial parental involvement beyond that common to kindergarten or elementary school parental involvement. Districts are encouraged to coordinate these programs with their special education and vocational education programs, as well as with other public or nonprofit agencies providing similar services.

State formula

For fiscal year 1986 and thereafter, these programs will be funded with a combination of state aid and local levy, as follows:

Maximum Early Childhood Revenue = (.05 x current school year formula allowance) x the greater of: (a) 150, or (b) # of people under age 5 residing in district

Early Childhood Levy = the lesser of:

(a) .4 mill x EARC valuation for that school year, or

(b) District's Maximum Early Childhood Revenue

Early Childhood Aid = [(Maximum Early Childhood Revenue) - (Early Childhood Levy)]

(NOTE: Beginning with fiscal year 1987, the formula allowance used to determine maximum early childhood revenue will be the formula allowance for the prior school year. Also beginning with fiscal year 1987, the yearly mill rate for the early childhood levy will increase from .4 mill to .5 mill.)

The amount of aid is reduced for any district which levies less than the maximum early childhood levy allowed to the district, in proportion to the amount of the underlevy.

Districts may charge fees for these programs, but must waive the fee for a participant who is unable to pay. Districts may also obtain funds from other sources to support early childhood programs.

[Appropriation: F. 1986, $5,245,100; F. 1987, $6,028,600. An additional appropriation is authorized to the Department of Education to provide assistance to districts in planning, implementing, and evaluating early childhood family programs: F. 1986, $35,000; F. 1987, $31,500.]

ADULT AND CONTINUING EDUCATION

- M.S. 123.35, subdivision 8; 124.26; 124.271, subdivision 4, 275.125, subdivision 8, clause 3

Districts are authorized by law to establish adult basic and continuing education programs available to persons over 16. Three different kinds of programs operate under this authority:

(1) Adult high school diploma programs, consisting of courses for credit toward a high school diploma;

(2) General Educational Development (GED) test refresher courses. (This test qualifies students for a high school equivalency certificate. The test is available to Minnesota residents over 19 whether or not they have taken a refresher course.);

(3) Adult basic education, consisting of courses to enable adults to speak, read or write in English at least at the 8th grade level.

Beginning in the 1985-86 school year, funding for these programs is as follows:

-- For adult high school diploma programs and GED refresher courses, the state pays 75 percent of the compensation of each teacher, coordinator of volunteers, and nonlicensed instructional staff person. The state also pays 75 percent of approved expenditures for benefits, purchased services, supplies, and equipment. Programs thus aided must be tuition free. In 1985-86, 58 GED programs, serving 220 districts and 110 other agencies, were funded. These programs will serve approximately 31,000 persons. (Appropriation: F. 1986, $1,815,900; F. 1987, $1,845,000)

-- For the administration of GED tests, school districts may use funds from the community education levy and state community education aid to reimburse the GED testing centers.

-- For adult basic education, there is federal aid available. These funds are allocated as grants to districts determined according to the merit of the proposals and the availability of funds. (Federal appropriation: F. 1986, $1,245,300; F. 1987, $1,245,300)

-- In no case shall federal and state aid equal more than 90 percent of the actual cost of providing these programs.

Beginning with the levy made in 1986 (payable 1987) for the 1987-88 school year, districts with an approved adult basic and continuing education program may levy up to 0.1 EARC mill for that purpose.

Vocational-Technical Education

POST-SECONDARY VOCATIONAL-TECHNICAL EDUCATION AID

The 1983 Legislature instituted a new method of providing funding for the 33 area vocational-technical institutes (AVTI's) and other higher education institutions in Minnesota, beginning in fiscal year 1984. Also, a new governing board, the State Board of Vocational-Technical Education, was established to govern the AVTI's in partnership with the school districts that operate them. Beginning in fiscal year 1985, the State Board of Vocational-Technical Education also has responsibility for all adult vocational education programs, whether the program is administered by an AVTI or not.

A. Average Cost Funding

-- M.S. 135A.; 136C.28

The new funding mechanism is known as "average cost funding". It replaces an aid formula and budget process that was used in past years to determine aid entitlements for AVTI's, with the aid distributed to school districts by the Department of Education. Under average cost funding, the State Board of Vocational-Technical Education receives an appropriation that is equal to the total cost of instruction, minus estimated tuition revenue. Instructional costs for a given fiscal year are matched with enrollments for the second previous fiscal year, in order to buffer the effects of enrollment declines and eliminate difficulties associated with inaccurate enrollment estimates. Beginning with the 1985-86 school year, adult vocational educational programs are also financed through average cost funding.

B. AVTI Construction

-- M.S. 136C.42, subdivision 4; 136C.44; 136C.41; 275.125, subdivision 14a

The state provides assistance to school districts for AVTI construction in several ways. Districts can levy to pay the local share of these projects.

1. Post-secondary vocational building construction assistance is provided to pay 85 percent of the cost of legislatively authorized post-secondary vocational facilities, using state bond proceeds appropriated from the vocational technical building fund for this purpose, after January 1, 1979. Minnesota Statutes 275.125, subdivision 14a permits a district to either levy or issue bonds for 15% of the cost of construction of legislatively authorized AVTI facilities, less any unappropriated net balance in the district's AVTI building construction fund. If local bonds are not issued, the total local share may be levied in one year or proportionately each year for up to three successive years.

2. Post-secondary vocational debt service aid. For AVTI buildings financed out of local district bonds issued prior to January 1, 1979, the state pays post-secondary vocational debt service aid for the state share--approximately 70 percent, depending on the district's historic enrollment of non-residents--of the district's bond payments for the facilities. (Debt service aid is paid as a credit against the debt service levy from an appropriation of $6,447,500 in F. 1986 and $6,015,400 in F. 1987.)

SECONDARY VOCATIONAL-TECHNICAL EDUCATION

1. Secondary Vocational Aid

-- M.S. 136C.37; 124.573

School districts and cooperative centers* providing state approved secondary vocational programs earn secondary vocational aid, based on the current year's expenditures, equal to:

-- 41.5 percent of the salaries paid to essential, licensed personnel employed in secondary vocational programs; plus

-- 41.5 percent of the costs of necessary travel between instructional sites by secondary vocational teachers; plus

-- 41.5 percent of the costs of necessary travel by secondary vocational teachers accompanying students to and from vocational student organization educational meetings; plus

-- 40 percent of the cost of any services provided by contract with another agency (other than a school district).

The Commissioner may withhold state aid from programs receiving aid from other sources. (Appropriation: F. 1986, $21,117,400; F. 1987, $19,965,500.)

2. Levy for equipment

-- M.S. 275.125, subdivision 11a, clause (f)

A district which operates a secondary vocational or industrial arts program can increase its capital expenditure levy by $5 per total pupil unit for equipment for these programs.

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* A cooperative center is an educational center sponsored by two or more school districts.

SECONDARY VOCATIONAL EDUCATION AID FOR HANDICAPPED CHILDREN

- M.S. 124.574

The 1978 Legislature created a new aid category for handicapped children enrolled in vocational programs in order to clarify the responsibilities of the vocational aid and special education aid programs for those children. The state pays aids for these programs as follows:

-- 70 percent of salaries of essential licensed personnel, but not more than $19,500 in aid for each full-time equivalent employee; plus

-- 50 percent of the costs of necessary equipment; plus

-- 50 percent of necessary travel by teachers between instructional sites; plus

-- 50 percent of necessary supplies, but not to exceed an average of $50 per child.

(Appropriation: F. 1986, $3,534,000; F. 1987, $3,606,300.)

Miscellaneous Funds for Education

I. AID PROGRAMS

Abatement Aid

-- M.S. 124.214, subdivision 2; 275.48

The state provides special aid to districts where tax receipts are reduced because the assessed valuation of the district goes down after the taxes for the year have been spread by the county auditor. The aid is computed as follows:

$$\text{Abatement Aid} = \text{Revenue loss certified by county auditor} \times \frac{\text{Levy Limit for equalized levies}}{\text{Total levy limit}}$$

The district is allowed to make a levy for the remainder of the revenue loss. (Appropriation: F. 1986, $4,886,000; F. 1987, $5,000,000.)

Aid for Nonpublic School Students

A. Books, Materials, Tests, Health Services, Guidance and Counseling

-- M.S. 123.931-123.947

School districts are required to provide nonpublic school pupils with textbooks, individualized instructional materials, and standardized tests, all of which must be secular in nature and cannot be used for religious instruction or worship. In addition, a district must provide the same health services to pupils of nonpublic schools as it provides to public school pupils. Nonpublic secondary pupils must also be offered guidance and counseling services by the public secondary schools. The state reimburses districts for their costs up to the amount of the statewide average expenditure per pupil (determined as of March 1 of the preceding school year) times the number of nonpublic school pupils served, with an inflation adjustment equal to the percent of increase in the foundation aid formula allowance from the second preceding school year. (Appropriation: F. 1986, $6,763,400; F. 1987, $7,184,100. School districts are not required to expend an amount for nonpublic school pupils which exceeds the amount of the state aid payments.)

B. Shared Time Programs

-- M.S. 124A.02, subdivisions 20-22; 124A.034

Nonpublic school pupils may be admitted by school districts to public school programs for part of the school day. These pupils earn shared time foundation aid for the district. (See page 29.) (Expenditure: F. 1986, $1,953,513; F. 1987, $2,082,925.)

C. Shared Time Special Education

-- M.S. 120.17, subdivision 9

School districts are required to provide special education programs for handicapped children. (See page 45 for description of program requirements.) These programs must be made available to handicapped nonpublic school pupils, and the district receives shared time foundation aid for these pupils.

D. Transportation

-- M.S. 123.76-123.79; 124.223; 124.225

School districts are also required to provide "equal transportation" for nonpublic school pupils. This means that the district within which a non-handicapped pupil resides must provide transportation for the pupil to a nonpublic school within the district if he or she lives at least the same distance from the nonpublic school as public school students in the district who are transported to school. Public schools are also permitted to transport nonpublic school pupils to regular shared time programs and must transport handicapped nonpublic school pupils to and from the facility where special education is provided. Public schools must also provide nonpublic school pupils with transportation within the district boundaries between the nonpublic school and public school or neutral site[1] for the purpose of receiving health and guidance and counseling services. State transportation aid is available for all of these transportation services to nonpublic school pupils. (F. 1985 total authorized cost[2] for transportation of approximately 70,100 nonpublic school pupils[3]: $14,409,400 of which $588,000 was for shared time special education transportation and $193,300 was for shared time regular transportation.)

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[1] "Neutral site" is defined by M.S. 123.932, subdivision 9, and essentially means a place other than a church-related building. A nonsectarian nonpublic school may serve as a neutral site.

[2] "Total authorized cost" includes transportation expenditures for which aid is authorized by M.S. 124.223, but does not include some depreciation on buses.

[3] The total number of nonpublic school pupils transported includes some duplication because students are counted once for each transportation service provided. The same student could be counted for regular nonpublic transportation, shared time transportation and nonpublic special support transportation.

E. Education for Limited English Proficient Students

-- M.S. 124.273, subdivision 3; 126.261-126.269

The Education for Limited English Proficient Students Act requires districts providing state-funded LEP programs to offer nonpublic school pupils access to the same programs on the same terms as public school pupils. (See page 46.) In addition to counting nonpublic school pupils for purposes of teacher's salary funding under the act, those pupils may also be counted by the district serving them for purposes of shared time foundation aid.

F. Income Tax Deductions

-- M.S. 290.089, subdivision 2

Taxpayers may deduct from gross income the amounts they spend for tuition, secular textbooks and transportation of dependents attending public or nonpublic elementary or secondary schools in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin. The maximum deductions are $650 per dependent in grades kindergarten through six and $1,000 per dependent in grades seven through twelve. (Estimated cost to state: F. 1986, $7,300,000*)

The constitutionality of this tax deduction was upheld in 1983 by the United States Supreme Court in the case of Mueller v. Allen. In a 5-4 decision affirming the lower courts' decisions, the Supreme Court held that the tuition tax deduction statute did not violate the establishment clause of the First Amendment.

American Indian Programs

-- M.S. 126.45-126.55

The State Planning Agency reported the results of a comprehensive study of American Indian educational, economic, and social needs to the 1981 Legislature, and the Legislature decided to continue funding the American Indian language and culture education programs. The objectives of the programs are: (1) to make the curriculum more relevant to the needs, interest, and cultural heritage of American Indian pupils; (2) to provide positive reinforcement of the self-image of American Indian pupils; and (3) to develop intercultural awareness among pupils, parents and staff. There are currently 14 programs located throughout Minnesota serving approximately 3,200 American Indian students, with an estimated 13,000 non-Indian students participating. (Appropriation: F. 1986, $585,200; F. 1987, $588,300.)

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* This estimate does not reflect reductions in income tax rates enacted by the 1985 Legislature.

Comprehensive Arts Planning Grants

-- M.S. 129B.17 - 129B.21

The 1983 Legislature established an arts in education planning grant program. During the 1985-86 and 1986-87 school years, up to 30 school districts may receive grants of $1,250 each year for two years. Grants are to be used for needs assessment, the creation of a community-based arts education committee, the development of a long-range plan for arts education, and participation in training offered by the department of education. (Appropriation: F. 1986, $100,000; 1987, $90,000.)

Arts Education Aid

-- M.S. 124.275

The 1985 Legislature established a new state aid for arts education programs such as creative dramatics, dance, creative writing, music, visual arts, film and video arts. Each district may determine how to use its art education aid. Districts are encouraged to develop long-range arts education plans, provide professional development for teachers, provide arts enrichment activities for students in grades kindergarten through six, and increase the number of elementary art teachers. State aid to each district is the greater of $1,200 or $2.25 per pupil in grades kindergarten to six. (Appropriation: F. 1986, $990,000; F. 1987, $990,000.)

Minnesota School of the Arts and Resource Center

-- M.S. 129C.10

The 1985 Legislature established a board of 15 members to develop, manage and control the Minnesota School of the Arts and Resource Center. The board has the authority to determine the location for the school of the arts and resource center, to establish a charitable foundation, and to accept and invest gifts and bequests. The board may also develop and pilot test an academic curriculum which includes dance, literary arts, media arts, music, theater and visual arts.

Beginning in the 1985-86 school year, the resource center is to offer programs directed at improving arts education in schools throughout the state. These programs include inservice workshops for teachers, and summer institutes for students in various regions of the state.

A resource center advisory council is established to advise the board about the activities of the center. The department of education will evaluate the implementation of the arts school and resource center, and will report to the Legislature by January 15, 1987. (Appropriation: F. 1986, $491,000; F. 1987, $2,037,000.)

Chemical Use Programs

-- M.S. 124.246

Each school district which adopts a comprehensive policy and procedures to minimize chemical use problems in the district and submits them to the Department of Education is eligible to receive state aid for inservice staff training, prevention programs, problem identification programs, referral programs, and after-care support programs. For fiscal years 1986 and 1987, the amount of state aid to each eligible district is the greater of $1,080 or $1.08 per pupil, in average daily membership, enrolled in a public elementary, secondary or area vocational-technical school, or a nonpublic elementary or secondary school. (Appropriation: F. 1986, $1,023,800; F. 1987, $1,022,000.)

Regional Management Information Centers

-- M.S. 121.935-121.937

Every district is required to process its financial operations using the computer system of a regional management information center or an alternative computer system approved by the state board. The regional centers were formed by districts under the Joint Powers Act. The centers charge fees, but they also receive state funds for general operations, and for the costs of communications between central computers and other locations. Appropriated funds are allocated among centers by the State Board. (Appropriations: F. 1986, $3,200,000; F. 1987, $3,272,700.)

Council on Quality Education

-- M.S. 129B.01-129B.05

A. Innovative Programs

The Council on Quality Education, composed of 19 members including both lay citizens and professional educators, makes grants to school districts, upon application, for innovative and experimental programs. Grants are limited to three years. The council is also responsible for collection and dissemination of theoretical and applied education research information. (Appropriations: F. 1986, $717,700; F. 1987, $350,000.)

B. Improved Learning Programs

-- M.S. 129B.41-129B.47

The 1981 Legislature enacted the Minnesota Improved Learning and Principal-Teacher, Counselor-Teacher, and Career Teacher Act. The purpose of this law is to maximize the individual growth potential of students by offering programs which emphasize basic and applied learning skills and the liberal arts, and which utilize the unique skills of principals, teachers, students, family, and the community.

The 1981 act makes state aid available to school districts, upon application, for improved learning programs which meet the requirements

specified in the law. In addition to the mandatory components, a program may also include several optional components. A school district providing an improved learning program must appoint an advisory council to advise the school board in the development, coordination, and review of the program. A school district with an approved program is eligible to receive grants, in declining amounts, for up to three years. See (A) for appropriations.

C. Mini-Grants

-- M.S. 129B.04, subdivision 1a

The council may also award grants of up to $5,000 to districts for the purpose of replicating cost-effective innovations and disseminating information about successful projects. See (A) for appropriations.

Note: The 1986 Legislature suspended the duties and responsibilities of the Council on Quality Education. These duties will be performed instead by the Commissioner of Education until June 30, 1987.

Educational Cooperative Service Units

-- M.S. 123.58

State aid is available to regional educational cooperative service units (ECSU) for general operating expenses. Most ECSU programs are financed by member districts. (Appropriations: F. 1986, $715,700; F. 1987, $743,700.)

Gifted and Talented Students

-- M.S. 124.247

Districts receive state aid for each student identified as gifted and talented. The state aid amounts to $40.00 per gifted student, with a minimum of $500 per district, beginning in the 1985-86 school year. The funds must be used for a program for gifted and talented students. Not more than 5 percent of the students in a district may be counted as gifted and talented for the purpose of earning aid. No more than 5 percent of the aid received by a district may be spent for the program's administration. (Appropriations: F. 1986, $1,282,600; F. 1987, $1,395,500.)

Health and Developmental Screening Programs

-- M.S. 123.701-123.705

School districts are required to make health and developmental screening available to every child in the district at least once before he or she enters kindergarten. The state pays the cost of the screening, up to $16.15 per child screened in fiscal year 1986. This amount will decrease to $8.50 per child screened in fiscal year 1987. Districts are encouraged to reduce costs by utilizing volunteers in implementing the program. (Appropriations: F. 1986, $882,000; F. 1987, $527,400.)

School Lunch Aid

-- M.S. 124.646

The state pays aid to school districts for each school lunch served for which pupils pay the full price. The state aid amounts to 7.5 cents per full paid lunch in 1985-86 and 1986-87. This aid is in addition to federal funds provided districts for full paid, reduced price, and free lunches. In addition, the state appropriates funds to pay the cost of storing and transporting commodities donated by the United States Department of Agriculture. The value of the commodities is approximately $15,000,000 per year. (Appropriations: F. 1986, $4,625,000; F. 1987, $4,625,000.)

Interdistrict Cooperation Aid and Levy

-- M.S. 124.272; 275.125, subdivision 8a

Levy authority and matching state aid are available to districts which enter into a cooperation agreement with one or more other districts for the purpose of improving the districts' academic curriculum, particularly in mathematics, science and foreign languages. Minneapolis, Anoka-Hennepin, St. Paul, Duluth and member districts of Intermediate School Districts Nos. 287, 916 and 917 are not eligible for this aid and levy.

The interdistrict cooperation aid and levy combination provides total additional revenue for eligible districts equal to the lesser of: (a) $50 per actual pupil unit; (b) the estimated cost to the district of the interdistrict cooperation program; or (c) $50,000. Eligible school districts may levy the amount of the estimated costs of the interdistrict cooperation program but the levy may not exceed the lesser of $50 per actual pupil unit, $50,000, or one EARC mill. State aid shall equal the difference between the district's interdistrict cooperation revenue and its interdistrict cooperation levy limit, times the ratio of the amount actually levied to the district's interdistrict cooperation levy limit. (Appropriation: F. 1986, $1,494,300; F. 1987, $2,085,000.)

Interdistrict Cooperation Revenue = Lesser of

(a) Estimated cost of the program to the district, or

(b) $50 per actual pupil unit, or

(c) $50,000.

Interdistrict Cooperation Levy Limit = Lesser of

(a) Interdistrict Cooperation Revenue, or

(b) One EARC mill.

Interdistrict Cooperation Aid =

$$\text{Interdistrict Cooperation Revenue} - \left(\text{Interdistrict Cooperation Levy Limit} \times \frac{\text{Amount Levied}}{\text{Interdistrict Cooperation Levy Limit}} \right)$$

II. MISCELLANEOUS MAINTENANCE LEVIES

Levies are allowed to pay the liabilities of dissolved districts (M.S. 275.125, subdivision 4, M.S. 122.45), to pay transition expenses of a district created by consolidation (M.S. 275.125, subdivision 4, M.S. 122.533), to pay for post-audits performed by the state auditor on his own initiative or upon petition of the freeholders (M.S. 275.125, subdivision 4; M.S. 6.62), and to pay for tort liability insurance premiums (M.S. 275.125, subdivision 4; M.S. 466.06).

Any district implementing a desegregation plan mandated by the state board of education or a court order may levy up to 1 EARC mill for desegregation purposes. The levy revenue is recognized in the fiscal year of certification and shall not be used in computing aid reductions (M.S. 275.125, subdivision 6e).

The Minneapolis school district may levy a per pupil unit amount based on its 1978 levy for municipal retirement for non-teaching employees, but the amount allowed is reduced each year by 10 percent of the difference between its 1972 and 1976 contribution to this retirement fund (M.S. 275.125, subdivision 6a).

The St. Paul school district may levy up to 0.2 mills on the taxable valuation of the district for payment of severance pay obligations (Laws of Minnesota for 1975, Chapter 261, section 4).

Tax Relief Aids and Aids in Lieu of Taxes

GENERAL PRINCIPLE

A number of state aids are paid to school districts either to provide tax relief or to compensate for the presence in the district of particular types of property--property which is not taxable or which is taxed in some way by the state. The amount of these tax relief aids and aids in lieu of taxes are deducted from local levies and (sometimes) foundation aid, so that districts receiving these aids do not have excessive funds available beyond the amount provided by the foundation aid formula.

A. Homestead Credit

-- M.S. 273.13, subdivisions 7, 22, and 23

The state pays a portion of the homestead property owner's school tax bill through the homestead credit, a property tax relief measure first enacted by the 1967 Legislature. For the 1984 levy, payable in 1985, the state will pay an amount equal to 54 percent of property taxes on the first $61,000 of market value of homestead property, up to a maximum credit of $650 per owner. For the 1985 levy, payable in 1986, and subsequent levies, the state will pay 54 percent of taxes on the first $68,000 of market value, up to a maximum credit of $700 per owner.

The homestead credit is shown on the property owner's tax statement as a deduction from gross taxes payable. The county auditor computes the dollar amount of the homestead credit for each taxing area along with the applicable mill rate for each taxing district. The State Department of Revenue distributes the homestead credit payments to the appropriate taxing districts by computing the ratio of each district's mill rate to the total mill rate for the area and multiplying the quotient times the amount of the homestead credit for the taxing area. Statewide, the school district mill rate is approximately 46 percent of the total mill rate. The Department of Education pays school districts their portion of the homestead credit as part of the foundation aid payments. [Estimated payments to school districts for taxes payable in 1985 (attributable to 1985-86 school year): $252,577,000, including homestead credit payments on mobile homes.]

B. State School Agricultural Credit

-- M.S. 124.2137

The state also provides school tax relief aid to agricultural, timber, and seasonal property owners for a portion of their property taxes levied for school purposes. For the 1984 levy, payable in 1985, the state pays 33 percent of the tax levy on the first 320 acres of agricultural homestead

property (excluding the homestead dwelling and surrounding one acre of land), 15 percent of the levy on the next 320 acres, and ten percent of the levy on all other agricultural homestead property. For non-homestead agricultural property, the state pays 15 percent of the levy on the first 320 acres, and 10 percent on the remainder. The total tax reduction received by any taxpayer under this provision for taxes payable in 1985 shall not exceed $4,000. For the 1985 levy, payable in 1986, and subsequent levies, the state will pay 36 percent of the levy on the first 320 acres of agricultural homestead property, and 26 percent on the remainder. For non-homestead property, the state will pay 26 percent of the levy. The $4,000 maximum state payment is removed.

The credit on timber property is equal to 26 percent of the levy. The credit on seasonal recreational property is 15 percent of the levy, but not more than $100.

On property eligible for both the homestead credit and the agricultural credit, the agricultural credit is applied to the property taxes first, then the homestead credit is applied. The agricultural tax credit is paid by the Department of Education as part of districts' foundation aid payments. [Estimated payments to school districts for taxes payable in 1985 (attributable to 1985-86 school year): $106,668,000]

C. Taconite Homestead Credit

-- M.S. 273.134

In addition to the homestead credit, the tax paid by homeowners in a taconite property tax relief area is reduced by the taconite homestead credit. For homestead property located in a city or town that has a taconite facility, taconite power plant, or on which more than 40 percent of its valuation was iron ore in 1941, the taconite homestead credit for taxes payable in 1985 is 66 percent of the tax on the property, up to a maximum credit of $490. For homestead property located outside such a city or town, but located within a school district that contains such a city or town, the taconite homestead credit is 57 percent of the tax on the property, up to a maximum credit of $435. The taconite homestead credit is determined based on the remainder of property tax due after computation of the regular homestead credit.

(Taconite homestead credit payments to school districts, taxes payable in 1985: $7,388,000)

D. Taconite Aid

-- M.S. 124.212, subdivision 8a, clause 2; 275.125, subdivision 9, clauses 2, 3, 4 and 5; 298.28, subdivision 1, clause 3; 477A.15

1. Taconite Aids

Taconite aid distributions to school districts in 1986 totalled $19,835,000. The bulk of this money is derived from the taconite production tax (M.S. 298.24, subdivision 1).

2. Use of Taconite Revenue

Taconite aid is used to reduce both the local levies and foundation aid. The method of computation of the levy subtraction has been changed, effective for taconite tax distribution made in 1987 and after.

For distributions used to reduce levies in 1986 and before, the amount subtracted from the district's local levy is calculated as the greater of:

(a) 50 percent of the amount of taconite payments received in the previous fiscal year; or

(b) $$\text{Taconite payments received in the previous fiscal year} - \left(\text{Taconite payments received in the previous fiscal year} \times \frac{\text{Basic maintenance levy limit}}{\text{Total levy limit}} \right)$$

For levies made in 1987 and after, the amount subtracted from the district's local levy is the greater of:

(a) 50 percent of the amount of taconite payments received in previous fiscal year; or

(b) $$\text{Taconite payments received in the previous fiscal year} - \left(\text{Taconite payments received in the previous fiscal year} \times \frac{\text{Referendum + Tier 1-5 levy limits}}{\text{Total levy limit}} \right)$$

However, under either formula, the basic maintenance levy cannot be reduced below 12.5 EARC mills by the taconite aid subtraction. Debt service and referendum levies are not reduced.

The remainder of the taconite payments received in a fiscal year is subtracted from foundation aid for that year. The subtraction is made from the October foundation aid payment, and from subsequent payments if the subtraction that is to be made exceeds the October payment.

If any taconite moneys remain after the levy subtraction is made and foundation aid has been reduced to zero, the remainder must be paid into the taconite property tax relief fund, used to pay taconite homestead credit.

3. Taconite Revenue and Referendum Levies

In 1981, the Legislature acted to allow taconite revenue to be used to equalize referendum levies in taconite districts. Taconite districts that have collected referendum levies of two mills or more receive additional taconite revenue according to the following formula:

$$\text{Taconite Referendum Revenue} = [(\$150 \times \text{No. of Pupil Units}) - (2 \text{ mills} \times \text{taxable valuation})]$$

For purposes of the above calculation, the number of pupil units in the district in 1983-84 is used if that number is higher than the number of pupil units in the current year. In districts where the certified referendum levy is less than two mills, the taconite referendum revenue is reduced proportionately.

For 1985 payable 1986 levies and thereafter (1986-87 school year and after), the local deduct of 2 mills is changed to 1.75 mills.

The money used to equalize referendum levies in taconite districts is limited to an amount equal to 23 cents per ton of taconite produced in the state (or 22 cents per ton for distributions in 1987 and after), times the proportion by which the steel mill products price index has increased over the base year of 1977. If this amount is insufficient, the entitlement of $150 per pupil unit is reduced so that the formula distributes no more money than the amount available. (Estimated taconite revenue used to equalize referendum levies, F.Y. 1986: $3,958,000.)

4. Taconite Reserve Account

In 1978, the Legislature altered the year to which taconite revenue is considered to accrue. Prior to 1978, districts were required to wait for over a year after receiving the taconite revenue before recognizing the portion of the revenue that is used to reduce levies. Under the new system, the levy portion of taconite revenue is recognized in the year it is received. The change meant that, in F. 1978 and F. 1979, districts had additional revenue to recognize. The additional revenue was equal to the amount by which the districts' levies for 1976 (payable 1977) and 1977 (payable 1978) were reduced by taconite payments. The legislation specified the way in which this revenue was to be expended, as follows:

(a) An amount equal to $200 times 1977-78 pupil units was to be reflected in a special account in the general fund, known as the "appropriated fund balance reserve account for current use of taconite payments." Each year, for up to ten years, $20 times the number of 1977-78 pupil units in the district can be expended from this account.

(b) Any remaining newly recognized revenue was to be applied to reduction of statutory operating debt, if the district had such debt.

(c) Finally, any remaining newly recognized revenue after (a) and (b) above was to be placed in the capital expenditure fund, except that before July 1, 1979, districts were allowed to transfer $75,000 of this amount to the general fund.

(For an explanation of the system of revenue recognition and fund accounting that is used by Minnesota school districts, see page 79.)

5. Taconite Debt Service Credit

-- M.S. 298.24, subdivision 3

Taconite companies are allowed a credit against the production tax for payment of taxes for bonds issued by a school district and for interest thereon. The amount of the credit is limited to four cents per gross ton of taconite concentrate, except in the case of school district #703, for which the credit is limited to seven cents per ton.

E. Attached Machinery Aid

-- M.S. 273.138, subdivision 3

In 1973, the Legislature acted to exempt "attached machinery" from real property taxation. "Attached machinery" means tools, implements, machinery, or equipment which is attached to or installed in real property for use in business or production. To replace the revenue which school districts lost as a result of this exemption, the Legislature provided for state attached machinery aid to school districts. Each year, school districts receive attached machinery aid equal to 90 percent of:

-- the 1972 assessed value of attached machinery exempted from taxation by Laws 1973, Chapter 650, Article XXIV, Section 1, times

-- the sum of the 1973 mill rates for the following levies:

(1) levies for debt service including amounts necessary to pay principal and interest on debt service loans and capital loans;

(2) levies for teacher retirement fund contributions in cities of the first class;

(3) 1972 excess levies.

No attached machinery aid will be paid to school districts where the attached machinery aid entitlement amounts to less than $10 per pupil unit.

Mill rates for basic maintenance, transportation, and capital expenditure levies were excluded from the above calculation because the equalized nature of the basic foundation aid, transportation aid, and capital expenditure aid formulas automatically compensates the school district for the loss in valuation due to the attached machinery exemption. The total maintenance levy is reduced by the amount of attached machinery aid received. (Appropriation: $821,000 for taxes payable in 1986.)

F. Other Credits

-- M.S. 273.115 (Wetlands); 273.116 (Native Prairie); 273.123 (Disasters); 273.1312 and 273.1314 (Enterprise Zones); 473H.10 (Agricultural Preserves)

The state also pays money to local governments, including school districts, to compensate for property taxes foregone because some types of property are non-taxable or are taxed at reduced rates. For taxes payable in 1985, school districts are compensated for the presence of privately owned wetlands ($294,000); privately owned native prairie ($85,000); to compensate for the reduced taxes on land in agricultural preserves ($190,000); to compensate for reduced taxes on property destroyed in natural disasters ($37,000); and to compensate for reduced taxes on business property in designated enterprise zones ($391,000).

Non-Maintenance School District Levies

Non-maintenance levies are those which are not used to pay current operating expenses of the district for the regular elementary-secondary school programs. The non-maintenance levies described in preceding or succeeding sections of this report are:

Capital Expenditure Levies (See pp. 73-77)

Transportation Levy (See p. 43)

Community Education Levies (See pp. 49-52)

Operating Debt Levy (See p. 80)

General Fund Deficit Levy (See p. 80)

Statutory Operating Debt Levy (see p. 79)

Debt Service Levy (See p. 73).

Capital Finance

There are several ways in which school districts finance capital projects. Major building projects are usually financed by borrowing money through the sale of bonds, and levying an annual tax to repay the money over a period of years. Smaller remodeling projects or equipment purchases are normally financed by means of the capital expenditure levy.

The state's role in school capital finance is modest. The state provides some aid for capital expenditures to low-wealth school districts. The state also supports the Maximum Effort School Aid program, which provides loans to low-wealth school districts for building construction and debt service. Finally, through the review and comment process, the Commissioner evaluates the advisability of districts' proposed building projects, but the Commissioner's findings are not binding.

In this section, each of these methods of obtaining funds for capital projects is explained.

Debt Service Levy

-- M.S. 275.125, subdivision 4

When approved by a voter referendum, school districts may issue bonds to finance a construction project. The district then can levy for the amounts needed to pay the principal and interest due on the bonds.

Maximum Effort School Aid Law

-- M.S. 124.36 - 124.476

Some districts find it difficult or impossible to finance construction projects through conventional bond sales because the district property tax base is so small. These districts can qualify for state assistance under the Maximum Effort School Aid Law. Under this program, the state borrows money via the sale of bonds, and lends it to qualifying school districts on favorable terms. Two types of loans are available: capital loans (for new construction projects), and debt service loans (to reduce the amount which districts must levy for debt service on completed projects). Qualifying districts can obtain either or both types of loan.

A. Capital Loans

To obtain a capital loan, the district must first obtain a favorable review and comment from the Commissioner, and must win a favorable recommendation from the State Board based on several criteria of need. The Commissioner can then recommend to the Legislature that a capital loan be issued for the

project, and the Legislature can approve, disapprove, or modify the loan application. If the loan is approved, the district must issue bonds up to the amount of: (1) the district's net debt limit, as defined in M.S. 475.53; or (2) 24 percent of the district's EARC valuation, whichever is less. The amount of the capital loan is the difference between the total cost of the project and the amount of the local bond issue.

The district's repayment of the loan is determined by one of several formulae, depending upon when the loan was obtained. For districts obtaining loans approved by the State Board after August 1, 1981, the formula is as follows:

The district must levy the greater of:

(1) 16 EARC mills, or

(2) the amount needed to pay principal and interest on the local bond issue.

In any year, if 16 EARC mills is the greater amount, the difference between (1) and (2) is applied to repayment of the state loan. If the amount needed for local debt service is the greater amount, no payment is required on the state loan in that year.

B. Debt Service Loans

Districts in which the levy required in order to make debt service payments on local bond issues exceeds 16 mills by 10 percent or by $5,000 can obtain a "debt service loan" from the state. This is a loan to reduce the magnitude of the debt service levy which must be collected. The amount of the loan can be up to the amount of the difference between the required debt service levy and 16 EARC mills. However, the loan amount cannot exceed one percent of the district's outstanding bonded debt.

Debt service loans are repaid in the same fashion as capital loans. Districts must levy at least 16 EARC mills, and if this amount exceeds the amount which the district must levy for debt service on its bonds, the difference is used to repay the state loan.

[Appropriation for capital loans and debt service loans: These programs are funded by the sale of bonds by the state. The 1980 Legislature authorized the sale of $20,000,000 in new bonds for the Maximum Effort program, which is available until utilized. The following amount is appropriated for payment of principal and interest on state bonds issued for the Maximum Effort program, because repayments of loans by districts is occurring at a slower rate than that required to meet the state's obligations: F. 1986, $2,390,300; F. 1987, $2,585,300.]

Capital Expenditure Levy and Aid for the 1985-86 and 1986-87 school years

- M.S. 124.245; 275.125, subdivisions 11a and 12

For capital outlay purposes, districts may levy (counting actual and AFDC pupil units):

-- $90 per pupil unit (or $95 per pupil unit if the district operates a secondary vocational or industrial arts program), or

-- in growing districts, $95 (or $100 per pupil unit if the district operates a secondary vocational or industrial arts program),

-- but not to exceed 7 mills x EARC valuation.

The proceeds of this levy may be used only for certain specified purposes:

-- to acquire land,

-- to equip and re-equip buildings,

-- to rent or lease buildings,

-- to purchase textbooks,

-- to purchase or lease computer equipment, software, photocopy machines, and telecommunications equipment,

-- for capital improvement and repair of school sites and buildings,

-- for the payment of special assessments,

-- with the Commissioner's approval, to acquire or construct buildings,

-- for reducing or eliminating barriers to or increasing access to school facilities by handicapped persons,

-- for energy assessments required by state law,

-- to improve school buildings for purposes of rental,

-- not for custodial services.

If the proceeds of this levy are insufficient for the purpose, a district may receive the Commissioner's approval to make an extra levy to rent a school building for instructional purposes.

If a district levies the full 7 EARC mills for capital expenditure purposes and the amount raised by the levy is less than the full allowance of $90, $95, or $100 per pupil unit, whichever applies, the district qualifies for capital expenditure aid. The aid is equal to the difference between the district's capital expenditure allowance and the amount raised by the levy of 7 EARC mills. (Appropriations: F. 1986, $249,600; F. 1987, $256,700.)

Special Purpose Capital Expenditure Levy and Aid for the 1985-86 and 1986-87 School Years

- M.S. 124.245, subdivision 2; 275.125, subdivision 11b; 121.151

Districts can also make an additional capital expenditure levy, the proceeds of which can only be used for the following special purposes:

-- energy audits and energy conservation measures;

-- improved access for handicapped persons to school buildings;

-- fire code compliance;

-- removal or encapsulation of asbestos in school buildings;

-- cleanup and disposal of polychlorinated biphenyls (PCB's) in school buildings or property; or

-- cleanup, removal, disposal, and repairs related to storing transportation fuels.

Districts may levy up to the lesser of $25 per pupil unit or 2 EARC mills for these purposes. Districts which levy the full 2 EARC mills receive equalization aid if the 2 mill levy does not raise at least $25 per pupil unit. The aid is equal to the difference between the allowance of $25 per pupil unit and the amount raised by the 2 mill levy. (Appropriation: F. 1986, $45,800; F. 1987, $50,800.)

Capital Expenditure Levy and Aid for the 1987-88 School Year

The 1986 Legislature combined the revenue and permitted uses of the capital expenditure aid and levy with the special purpose capital expenditure aid and levy. Beginning with the levy for the 1987-88 school year, districts may levy the lesser of:

(a) $130 per pupil (counting actual and AFDC pupil units), or

(b) 9 mills X EARC valuation.

Capital expenditure aid is equal to the difference between the allowance of $130 per pupil unit and the amount raised by the levy of 9 EARC mills.

Districts are no longer required to levy the full 9 mills in order to qualify for capital expenditure aid. However, aid will be reduced in proportion to the underlevy.

The proceeds of the new capital expenditure aid and levy may be used for purposes allowed under both the 1986-87 capital expenditure levy and the 1986-87 special purpose capital expenditure levy.

Hazardous Substance Capital Expenditure Levy and Aid

-- M.S. 124.245, subdivision 3; 275.125, subdivision 11c; 121.151

Districts can also make an additional capital expenditure levy for removal of certain hazardous substances from school buildings or property. The proceeds from this levy can be used only for three purposes:

-- removal or encapsulation of asbestos;

-- clean-up and disposal of polychlorinated biphenyls (PCB's); or

-- clean-up, disposal, and repairs related to storing transportation fuels.

This levy and aid authorization is identical in amount to that of the 1986-87 special purpose capital expenditure: districts can levy the lesser of $25 per total pupil unit or 2 EARC mills. Equalization aid is paid to districts where the 2 mill levy raises less than $25 per pupil unit. (Appropriation: F. 1986, $42,100; F. 1987, $50,200.)

Review and Comment on Construction

-- M.S. 121.15

Any school district that intends to construct an educational facility costing more than $400,000 must submit its proposal to the Commissioner for review and comment. The Commissioner's findings are not binding upon the district, but must be published in the district prior to a referendum on the construction project.

School District Accounting

UFARS

-- M.S. 121.90-121.917

The State Board of Education is required by the Legislature to adopt a uniform system of records and accounting for public schools. The adopted system, a modified accrual accounting system, is known as "UFARS" (Uniform Financial Accounting and Reporting System). Under UFARS, every district must maintain the following funds:

A. Operating Funds

1. General fund
2. Food service fund
3. Pupil transportation fund
4. Community services fund

B. Nonoperating Funds

1. Capital expenditures fund
2. Building construction fund
3. Debt redemption fund
4. Trust and agency fund

The UFARS statute (M.S. 121.912) generally prohibits a district from permanently transferring money from an operating fund to a nonoperating fund, although a procedure is set forth in statute for the State Board to approve transfers in exceptional circumstances. The statute also prescribes the fiscal years when revenues and expenditures are to be recognized on district books. These recognition provisions affect the determination, described below, of a district's operating debt and expenditure limitations.

Statutory Operating Debt

-- M.S. 121.914; 275.125, subdivision 9a

1. Definition
"Operating debt" is defined as the net negative unappropriated fund balance on June 30 of any year in all of the school district's operating funds (excluding AVTI funds, if any). Districts for which the operating debt is greater than 2-1/2 percent of the expenditures in operating funds in the most recent fiscal year are considered to be in "statutory operating debt."

2. Statutory Operating Debt Levy

The Commissioner was required to determine the "operating debt" of each school district as of June 30, 1977, using a uniform auditing procedure. School districts in statutory operating debt as of June 30, 1977, are required to levy 1.5 EARC mills each year for the purpose of eliminating this debt. The proceeds of the levy are to be placed in a special fund designated for this purpose. The proceeds are to be used only for cash flow requirements, not for increasing expenditures or budgets. Once the statutory operating debt is eliminated, the statutory operating debt levy must be discontinued. The levy may not be made in more than 20 successive years. If desired, a district may use its unappropriated operating fund balance to reduce or eliminate its statutory operating debt, and reduce its statutory operating debt levy accordingly.

1983 Operating Debt Levy

-- M.S. 275.125, subdivision 9b

Districts which have a net deficit in all operating funds as of June 30, 1983 (aside from any statutory operating debt) may make an operating debt levy to eliminate this deficit. The amount of the levy is 1.5 EARC mills per year, but the sum of the levy for all years may not exceed the lesser of: (1) the district's actual operating debt as of June 30, 1983; or (2) the sum of budget cuts for the district made by the state for FY 1983.

1985 General Fund Deficit Levy

- M.S. 275.125, Subdivision 9c

Districts which have a deficit in the general fund as of June 30, 1985, are authorized to make a levy to eliminate the deficit. The amount of the levy is 1.5 mills per year, not to exceed the amount of the general fund deficit as of June 30, 1985. The levy can be made each year until the entire amount of the deficit as of June 30, 1985, has been levied. Eligible districts may levy under this provision or the provision authorizing the 1983 operating debt levy, but not both.

Expenditure Limitations

-- M.S. 121.917

Beginning in fiscal year 1978, a school district in statutory operating debt must limit its expenditures in each fiscal year such that its statutory operating debt is not greater than it was on June 30, 1977, increased by 2-1/2 percent of the district's operating expenditures for the fiscal year at hand. School districts not in statutory operating debt must limit expenditures so that they do not incur a statutory operating debt. If a district exceeds these expenditure limitations, it must submit a special operating plan to reduce its deficit expenditures to the Commissioner of Education for approval. If the plan is disapproved, the district receives no state aid until a plan is approved.

Property Tax Shift and Levy Recognition

A. Explanation

In 1982, the Legislature altered the way in which school property tax revenues are to be recognized for accounting purposes. The purpose of the alteration was to delay some state payments to relieve a state budget crisis. For taxes payable in years prior to 1983, school district levies collected in a given calendar year were to be attributed to the fiscal year (and school year) that begins July 1 of the year in which the property taxes are payable. For taxes payable in 1983 and 1984, approximately 32 percent of each year's levy is to be attributed to the fiscal year that ends June 30 of the year in which the taxes are payable, and the remaining 68 percent of each year's levy is to be attributed to the fiscal year that begins on that July 1.

As a result, approximately 32 percent of each district's 1983 levy revenue was "shifted" from designation for use in fiscal year 1984 to fiscal year 1983. State aid to each district in fiscal year 1983 was reduced by an amount equal to the shifted amount, so that the net revenue attributable to fiscal year 1983 was unchanged. State aid costs in fiscal year 1983 were reduced as a result. A similar shift occurred for 1984 levy revenue. For levies payable in 1985 and later years, a similar shift occurs, but the percentage of levy shifted was reduced from 32 percent to 24 percent.

In future years, districts will continue to recognize levy revenue on this 24/76 percent basis, but without the accompanying aid reduction. The combination of 76 percent of a given tax year's levy and 24 percent of the next tax year's levy will always yield an amount equivalent to a full year's levy, so the amount of levy revenue available to a school district will be the same as it would have been had this change not been made. Minor adjustments in state aids will be made by the Department of Education to compensate for fluctuations in levies from year to year, so that the two levy portions attributable to a given school year will properly match.

The following chart illustrates the relationship among the years for EARC valuation and the certification, collection and use of levies.

EARC	October When Levy is Certified	Calendar Yr. When Levy is Collected	Fiscal/School Year When Levy is Used
1980	1981	1982	F. 1983 = 1982-83 sch. yr.
1981	1982	1983	F. 1983 = 1982-83 sch. yr: 32% of levy
			F. 1984 = 1983-84 sch. yr: 68% of levy
1982	1983	1984	F. 1984 = 1983-84 sch. yr: 32% of levy
			F. 1985 = 1984-85 sch. yr: 68% of levy
1983	1984	1985	F. 1985 = 1984-85 sch. yr: 24% of levy
			F. 1986 = 1985-86 sch. yr: 76% of levy
1984	1985	1986	F. 1986 = 1985-86 sch. yr: 24% of levy
			F. 1987 = 1986-87 sch. yr: 76% of levy

B. State Fund Balance Contingency

-- M.S. 16A.1541; 121.904, subdivisions 4c and 4d

The 1985 Legislature provided for a reduction in the magnitude of the 24 percent property tax shift if projected state revenues at the end of the biennium are sufficient. Once a threshhold level is reached for the state's fund balance, and certain other state obligations are satisfied, any additional state revenues will be used to reduce the 24 percent factor, in increments of one percentage point. Each percentage point reduction costs approximately $9 million. As an example, if the shift percentage factor for fiscal year 1987 is reduced under this provision, districts will receive more aid in fiscal year 1987, and a smaller portion of the 1986 payable 1987 levy will be recognized in fiscal year 1987.

If the school district property tax shift percent is reduced to zero and a state fund balance still exists, the portion of state aids that are paid in each current fiscal year for use in that same year will be increased in increments of one percent. Presently this percent is 85. The law allows this to be increased to as much as 90 percent. If the percent is increased, the final adjustment payment in October of the following fiscal year will be reduced accordingly.

Teacher Retirement

Teachers, administrators, nurses, librarians, social workers, counselors, and other professional personnel employed in Minnesota's public schools are provided retirement benefits through four teacher retirement fund associations. The largest of the funds is the Statewide Teachers Retirement Association (TRA). The three smaller funds are separate retirement associations for teachers employed by the first class city school districts, Minneapolis, St. Paul, and Duluth. Prior to FY 1987 the state paid all employer obligations to the teacher retirement funds and Social Security. Beginning in FY 1987, school districts are responsible for these employer contributions and a new state aid formula for teacher retirement begins.

Employer Contributions

Statewide Teachers' Retirement Association (TRA): M.S. 354.42; 354.43; 355.01-355.08; 355.41-355.60

Cities of the First Class: M.S. 354A.12; 355.201-355.288

The employer's share of retirement contributions on behalf of all statewide TRA members has been paid by the state since the establishment of the fund in 1915. Employer contributions for teachers employed in the cities of the first class have been solely the state's responsibility since 1975, although state aid for first class city teacher retirement costs began in 1968. The state has also paid employer contributions to Social Security for all members of "coordinated" retirement plans, i.e. those plans which also provide social security benefits upon retirement.*

Employer contributions to the retirement funds are calculated as a percentage of each employee's salary. These rates are determined by the Legislative Commission on Pensions and Retirement and are set in statute. Table 1 shows the employer contribution rates in effect on July 1, 1985. The number of active members upon which employer contributions are made is also shown.

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* Coordinated plans include social security coverage and employer contributions to social security are required. Basic plans do not include social security coverage and therefore require higher employer contribution rates to the retirement fund.

Since 1959, all new members of the statewide TRA have been required to be covered under the coordinated plan. Minneapolis and St. Paul offered coordinated plans beginning in 1978. All members of the Duluth association are covered by coordinated plans.

Table 3

EMPLOYER CONTRIBUTION RATES AND MEMBERSHIP COUNTS, BY RETIREMENT PLAN

	1984 Active Membership	Employer Contribution Rate
Statewide TRA Coordinated Plan	56,035	8.98%
Statewide TRA Basic Plan	2,155	12.98%
Minneapolis Coordinated Plan	649	4.50%
Minneapolis Basic Plan	2,450	13.35%
St. Paul Coordinated Plan	1,130	4.50%
St. Paul Basic Plan	1,816	12.63%
Duluth Coordinated Plan	1,137	5.79%
Duluth Basic Plan	N/A	N/A

The employer contribution rates for the statewide TRA basic and coordinated plans include 4.48 percent of salary for the purpose of amortizing the deficit of the fund.

Social security employer contribution rates are determined by the Federal Department of Health and Human Services according to the Federal Insurance Contributions Act (F.I.C.A.). For calendar year 1986, the employer contribution rate is 7.15 percent of salaries up to $42,000, and estimated for 1987 to be 7.15 percent of salaries up to $45,000.

Teacher Retirement Aid

-- M.S. 124.2161 - 124.2163

The 1985 Legislature shifted the responsibility for payment of employer retirement and social security contributions from the state to the school districts, effective F.Y. 1986 for AVTI employees, and effective F.Y. 1987 for all other professional school district employees. State aid for teacher retirement was established to assist school districts in meeting their new responsibility for teacher retirement costs.

The retirement aid formula provides revenue to regular school districts based on historical retirement costs per pupil. Aid is awarded on the basis of retirement costs per pupil in the "base year" (the second preceding year from the year in which aid is received), which are inflated to account for increases in teacher salaries and Social Security contribution rates.

For the 1986-87 school year, the following steps will be used to calculate each school district's retirement aid.

1. Actual teacher retirement and Social Security costs in the base year (1984-85) are measured. Contributions on behalf of AVTI employees and employees paid from sources other than normal school operating funds are not included in the measure of costs.

2. Base year retirement costs are multiplied by the retirement inflation factor set in statute (1.1396). Base year Social Security costs are multiplied by the Social Security inflation factor (1.1599).

3. The district's per pupil retirement aid allowance is determined by adding together the inflated costs calculated in step number 2 and dividing this amount by the district's average daily membership (ADM) in the base year (1984-85).

4. The district's maximum retirement aid is calculated by multiplying the per pupil aid allowance computed in step number 3 times the district's ADM in the current year (1986-87).

5. If the district's actual costs for retirement and Social Security in 1986-87 are less than the maximum aid calculated in step number 4, retirement aid will be limited to the district's actual costs.

These steps can be summarized as follows:

$$\text{Retirement Aid Allowance} = \frac{\left(\text{Base Year Retirement Costs} \times \text{Retirement Inflation Factor}\right) + \left(\text{Base Year Soc. Sec. Costs} \times \text{Soc. Sec. Inflation Factor}\right)}{\text{Base Year ADM}}$$

Maximum Aid = Retirement Aid Allowance X Current Year ADM

Actual Aid = Lesser of:

(a) Maximum aid, or

(b) Actual retirement costs

The formula used to calculate retirement aid after 1986-87 will be similar with two differences. The base year will be updated each year so that it is always two years prior to the year in which aid is received. Also, the same inflation factor will be applied to both retirement and Social Security obligations. The inflation factor will be the ratio of the current year's foundation formula allowance to the base year's formula allowance.

C. Example - 1986-87 School Year

ASSUMPTIONS

Base Year	1984-85
Current Year	1986-87
Average Daily membership (ADM), Base Year	2,950
ADM, Current Year	2,720
Teacher Retirement Cost, Base Year	$491,000
Social Security Cost, Base Year	$355,800
Total Teacher Retirement Cost, Base Year	$846,800
Teacher Retirement Inflation Factor	1.1396
Social Security (F.I.C.A.) Inflation Factor	1.1599

$$\text{Aid Allowance} = \frac{(491{,}000 \times 1.1396) + (355{,}800 \times 1.1599)}{2{,}950} = \$329.57$$

Maximum Aid = $329.57 X 2,720 = $896,430

A similar formula is used to provide retirement aid to intermediate districts, joint vocational technical districts, secondary vocational education cooperative centers, special education cooperative centers, ECSU's, and regional management information centers. The major difference is that retirement aid is based on the number of professional personnel employed by these units in their elementary and secondary programs rather than on ADM.

Intermediate districts are prohibited from charging member districts for teacher retirement costs which exceed the aid paid to the intermediate district.

Beginning in FY 1987, Teacher Retirement Aid will be paid on the basis of 85% of the entitlement in the current fiscal year, and 15% in the following fiscal year. (Appropriation: F. 1986, $216,227,200; F. 1987, $192,832,700.)

Teacher Mobility Incentives

One of the adverse effects of declining pupil enrollments on school district finances is the problem of a steadily maturing and more highly paid staff. Typically, as enrollments decline, teachers are laid off, but layoffs are usually confined to less senior staff members at the lower end of the salary scale. As a result, average salary costs for the school district increase, and it becomes more difficult to adequately fund school programs within the constraints of the foundation aid formula.

In response to this problem, the 1977 Legislature created three programs to encourage older, more senior staff members to withdraw from active teaching service, thus creating room for new hirings at entry-level salaries. These programs are:

Extended Leaves of Absence

-- M.S. 125.60; 354.094; 354A.091

The board of a school district may grant an extended leave of absence without pay to any full or part time professional employee who has been employed by the district for at least five years, and has at least ten years of full time teaching service or allowable service credit. The duration of the leave is determined by mutual agreement, but the maximum duration must be at least three years, and cannot exceed five years. Employees on extended leave have reinstatement privileges at the beginning of any year during the leave, unless discharged or placed on unrequested leave. Reinstated employees retain seniority and contract rights as if they had been working while on leave. Superintendents on extended leaves do not have the right to reinstatement. A district is not required to reinstate teachers who take another full or part-time public school teaching job while on leave.

Prior to the 1984-85 school year, if the application for an extended leave was approved, the state paid the employer's contribution for those teachers contributing to the teacher's retirement fund during their leaves of absence. Effective for those leaves of absence beginning in 1984-85 and each school year thereafter, the state no longer participates in the employer contributions. However, the program continues and there is no limit to the number of extended leave applications which may be approved by local school boards for those teachers who do not intend to pay employee contributions or who do not request state payment of employer contributions. The appropriations reflect the state's obligations for those leaves of absence which began prior to the 1984-85 school year. (Appropriations: F. 1986, $938,000; F. 1987, $602,000.)

Early Retirement Incentives

-- M.S. 125.611

This program allows professional employees of a school district who have either at least 15 years of teaching or allowable service and who are between the ages of 55 and 64, or at least 30 years of teaching or allowable service, to receive an early retirement incentive payment.

For those applications approved prior to June 30, 1984, the early retirement incentive amount was specified by statute and the state reimbursed the school district for 50 percent of the early retirement incentive.

For those applications submitted on or after July 1, 1984, the state does not pay any portion of the early retirement incentive amount. However, the teacher may apply to the local school board for payment of an early retirement incentive. The amount of the incentive and the time and manner of payment shall be agreed upon by the teacher and the school board. The applications must be submitted by February 1 of the school year in which the teacher wishes to retire. (No appropriations for F. 1986 and F. 1987.)

Part-Time Teachers

-- M.S. 354.66; 354A.094

This program allows teachers and other professional staff (except superintendents, chancellors, and vice chancellors) employed by school districts, community colleges, or state universities who are working part-time to contribute to their teachers' retirement fund as though they were working full-time, for up to ten years.

Prior to the 1985-86 school year, the state paid the employer's contributions to the retirement fund as though employees in this program were working full-time. The number of applications and the application procedure for state participation were specified in statute.

Beginning in the 1985-86 school year and thereafter, the state is no longer paying the employer contributions, but the program may continue with unlimited participation, subject to the approval of the school boards, state board for community colleges or state university board, whichever is the employer of the particular teacher applying to participate in this program. That portion of the cost paid by the state prior to the 1985-86 school year will now be paid by the participating employee or the employer.

In order to qualify for this program, the employee must have twenty years of teaching or allowable service. While participating in the program, the teacher cannot take another part-time or full-time teaching position in another school district, state university, or community college. Program participants who are state employees (i.e., those employed by state universities and community colleges) are also eligible for state paid insurance benefits as though they were working full-time. (Appropriations for part-time teachers in school districts: F. 1986, $118,000.)